
BASIC FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2005

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 3,111,293	\$ 1,277,531	\$ 4,388,824	\$ 205,945
Investments.....	—	77,697	77,697	148,802
Invested securities lending collateral.....	611,582	100,069	711,651	16,114
Receivables, net:				
Accounts.....	257,745	67,333	325,078	191,004
Contributions.....	—	4,328	4,328	10,851
Participants.....	—	6,255	6,255	—
Accrued interest.....	20,344	4,385	24,729	2,675
Income taxes.....	294,166	—	294,166	—
Sales and other taxes.....	440,562	—	440,562	—
Student accounts.....	—	36,140	36,140	—
Patient accounts.....	12,599	132,252	144,851	—
Loans and notes.....	28,718	119,973	148,691	—
Assessments.....	—	53,433	53,433	—
Due from Federal government and other grantors.....	682,468	92,399	774,867	—
Internal balances.....	10,383	(10,383)	—	—
Due from component units.....	21,269	88,813	110,082	—
Due from primary government.....	—	—	—	2
Inventories.....	40,383	29,184	69,567	114,272
Restricted assets:				
Cash and cash equivalents.....	63,623	202,756	266,379	124,483
Investments.....	113,729	8,139	121,868	52,645
Loans receivable.....	—	305	305	—
Other.....	63,182	2,477	65,659	—
Prepaid items.....	16,026	22,224	38,250	7,231
Other current assets.....	—	3,286	3,286	15,129
Deferred charges.....	—	—	—	1,532
Total current assets.....	5,788,072	2,318,596	8,106,668	890,685

The Notes to the Financial Statements are an integral part of this statement.

Statement of Net Assets (Continued)

June 30, 2005

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
Long-term assets:				
Receivables, net:				
Accounts.....	61,542	583	62,125	2,211
Contributions.....	—	1,712	1,712	34,553
Participants.....	—	18,948	18,948	—
Income taxes.....	35,250	—	35,250	—
Sales and other taxes.....	48,776	—	48,776	—
Patient accounts.....	10,507	—	10,507	—
Loans and notes.....	392,168	721,544	1,113,712	—
Investments.....	226,541	17,740	244,281	575,151
Restricted assets:				
Cash and cash equivalents.....	611,149	738,421	1,349,570	98,053
Investments.....	—	122,917	122,917	419,187
Accounts receivable.....	432,464	—	432,464	—
Loans receivable.....	—	551,095	551,095	—
Other.....	3,873	15,291	19,164	473
Prepaid items.....	—	15,556	15,556	—
Other long-term assets.....	771	29,503	30,274	8,534
Deferred charges.....	21,117	9,333	30,450	404,873
Investment in joint venture.....	—	—	—	6,816
Non-depreciable capital assets.....	5,279,320	593,589	5,872,909	943,239
Depreciable capital assets, net.....	7,081,599	2,229,711	9,311,310	2,850,306
Total long-term assets.....	14,205,077	5,065,943	19,271,020	5,343,396
Total assets.....	19,993,149	7,384,539	27,377,688	6,234,081

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Statement of Net Assets (Continued)

June 30, 2005

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 720,130	\$ 208,101	\$ 928,231	\$ 140,762
Accrued salaries and related expenses.....	113,084	69,772	182,856	10,895
Accrued interest payable.....	37,203	15,821	53,024	81,556
Retainages payable.....	3,986	13,125	17,111	846
Tax refunds payable.....	502,478	4,018	506,496	—
Payables-aid to individuals/families.....	535	—	535	—
Prizes payable.....	—	—	—	27,632
Unemployment benefits payable.....	—	6,554	6,554	—
Intergovernmental payables.....	338,243	4,766	343,009	119
Tuition benefits payable.....	—	9,077	9,077	—
Policy claims.....	486,502	38,500	525,002	37,375
Due to component units.....	2	—	2	—
Due to primary government.....	—	—	—	110,082
Unearned revenues and deferred credits.....	189,823	115,870	305,693	29,926
Deposits.....	—	5,648	5,648	11
Amounts held in custody for others.....	—	5,371	5,371	—
Securities lending collateral.....	611,582	100,069	711,651	16,114
Liabilities payable from restricted assets:				
Accounts payable.....	—	7	7	259
Accrued interest payable.....	30,652	22,660	53,312	1,766
Bonds payable.....	37,940	76,623	114,563	—
Other.....	—	49,240	49,240	—
Notes payable.....	1,799	17,744	19,543	1,549
Revenue bonds anticipation notes payable.....	—	9,345	9,345	—
General obligation bonds payable.....	186,744	13,075	199,819	—
Revenue bonds payable.....	1,260	18,793	20,053	79,850
Limited obligation bonds payable.....	4,120	—	4,120	—
Capital leases payable.....	1,123	10,455	11,578	2,808
Commercial paper notes.....	—	—	—	193,317
Compensated absences payable.....	128,490	60,378	188,868	2,144
Other current liabilities	33,719	7,334	41,053	53,968
Total current liabilities.....	3,429,415	882,346	4,311,761	790,979

The Notes to the Financial Statements are an integral part of this statement.

Statement of Net Assets (Continued)

June 30, 2005

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
Long-term liabilities:				
Retainages payable.....	17	759	776	26,824
Intergovernmental payables.....	300	—	300	—
Tuition benefits payable.....	—	158,279	158,279	—
Policy claims.....	85,383	171,867	257,250	149,816
Unearned revenues and deferred credits.....	—	—	—	260,613
Amounts held in custody for others.....	—	—	—	2,325
Other liabilities payable from restricted assets.....	—	10,464	10,464	—
Notes payable.....	8,512	206,336	214,848	4,137
General obligation bonds payable.....	2,111,509	217,348	2,328,857	—
Tobacco Authority bonds payable.....	820,905	—	820,905	—
Infrastructure Bank bonds payable.....	1,909,453	—	1,909,453	—
Revenue bonds payable.....	22,261	2,216,616	2,238,877	2,991,873
Limited obligation bonds payable.....	15,272	—	15,272	—
Capital leases payable.....	1,733	42,100	43,833	12,256
Compensated absences payable.....	72,114	49,800	121,914	14,711
Other long-term liabilities.....	75,479	61,970	137,449	66,097
Total long-term liabilities.....	5,122,938	3,135,539	8,258,477	3,528,652
Total liabilities.....	8,552,353	4,017,885	12,570,238	4,319,631
NET ASSETS				
Invested in capital assets, net of related debt.....	\$ 8,877,813	\$ 1,778,072	\$ 10,655,885	\$ 915,008
Restricted:				
Expendable:				
Unemployment compensation benefits.....	—	396,205	396,205	—
Education.....	290,736	157,369	448,105	156,743
Health.....	10,168	—	10,168	—
Transportation.....	241,751	—	241,751	—
Capital projects.....	327,341	120,387	447,728	18,305
Debt service.....	1,132,921	257,679	1,390,600	118,204
Loan programs.....	543,747	220,287	764,034	—
Waste management.....	97,093	—	97,093	—
Insurance programs.....	27,307	—	27,307	—
Other.....	61,607	—	61,607	125,325
Nonexpendable:				
Education.....	406	76,618	77,024	284,074
Other.....	2,081	—	2,081	—
Unrestricted.....	(172,175)	360,037	187,862	296,791
Total net assets.....	\$ 11,440,796	\$ 3,366,654	\$ 14,807,450	\$ 1,914,450

Statement of Activities

For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Functions					
Primary government:					
Governmental activities:					
General government.....	\$ 1,727,612	\$ 1,390,695	\$ 356,103	\$ 957	\$ 20,143
Education.....	1,280,791	33,017	1,003,205	1,143	(243,426)
Health and environment.....	4,767,155	131,475	3,562,992	4,643	(1,068,045)
Social services.....	992,960	2,459	870,131	—	(120,370)
Administration of justice.....	629,185	115,590	39,075	46	(474,474)
Resources and economic development.....	197,351	50,605	72,959	31,215	(42,572)
Transportation.....	664,125	92,750	147,989	612,380	188,994
Intergovernmental.....	3,848,454	—	—	—	(3,848,454)
Unallocated interest expense.....	67,705	—	—	—	(67,705)
Total governmental activities.....	14,175,338	1,816,591	6,052,454	650,384	(5,655,909)
Business-type activities:					
Higher education.....	2,679,238	1,858,869	210,907	54,811	(554,651)
Higher education institution support.....	800,151	833,452	44,636	355	78,292
Unemployment compensation benefits.....	366,820	314,249	18,776	—	(33,795)
Financing of housing facilities.....	147,021	40,624	115,817	—	9,420
Medical malpractice insurance.....	47,432	41,638	286	—	(5,508)
Financing of student loans.....	43,567	42,660	6,384	—	5,477
Tuition prepayment program.....	26,653	—	22,151	—	(4,502)
Patriots Point development.....	6,638	7,107	165	—	634
Insurance claims processing.....	1,655	1,657	—	—	2
Other.....	29,055	33,562	550	—	5,057
Total business-type activities.....	4,148,230	3,173,818	419,672	55,166	(499,574)
Total primary government.....	\$ 18,323,568	\$ 4,990,409	\$ 6,472,126	\$ 705,550	\$ (6,155,483)
Component units:					
Public Service Authority.....	\$ 1,087,331	\$ 1,154,870	\$ 11,160	\$ —	\$ 78,699
State Ports Authority.....	107,503	138,392	3,542	10,570	45,001
Connector 2000 Association, Inc.....	22,870	3,769	1,018	—	(18,083)
Lottery Commission.....	962,980	960,149	590	—	(2,241)
Other.....	112,053	41,878	105,077	—	34,902
Total component units.....	\$ 2,292,737	\$ 2,299,058	\$ 121,387	\$ 10,570	\$ 138,278

The Notes to the Financial Statements are an integral part of this statement.

Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets:				
Net (expense) revenue	\$ (5,655,909)	\$ (499,574)	\$ (6,155,483)	\$ 138,278
General revenues:				
Taxes:				
Individual income.....	2,762,538	—	2,762,538	—
Retail sales and use.....	3,221,466	—	3,221,466	—
Other.....	1,469,701	—	1,469,701	—
Total taxes.....	7,453,705	—	7,453,705	—
Unrestricted grants and contributions.....	26,391	—	26,391	—
Unrestricted investment income.....	32,628	—	32,628	—
Tobacco legal settlement.....	73,231	—	73,231	—
Other revenues.....	71,090	—	71,090	—
Extraordinary loss on debt extinguishment.....	—	(556)	(556)	—
Transfers—internal activities.....	(714,238)	714,238	—	—
Total general revenues and transfers.....	6,942,807	713,682	7,656,489	—
Change in net assets.....	1,286,898	214,108	1,501,006	138,278
Net assets at beginning of year (restated).....	10,153,898	3,152,546	13,306,444	1,776,172
Net assets at end of year.....	\$ 11,440,796	\$ 3,366,654	\$ 14,807,450	\$ 1,914,450

Balance Sheet**GOVERNMENTAL FUNDS****June 30, 2005****(Expressed in Thousands)**

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
ASSETS				
Cash and cash equivalents.....	\$ 632,819	\$ 493,375	\$ 266,982	\$ 229,251
Investments.....	21,996	391	—	—
Invested securities lending collateral.....	333,690	6,313	91,645	41,798
Receivables, net:				
Accounts.....	1,116	128,291	51,769	12,667
Accrued interest.....	4,741	299	6,729	1,471
Income taxes.....	329,416	—	—	—
Sales and other taxes.....	341,477	12,483	—	8,407
Patient accounts.....	11,383	11,723	—	—
Loans and notes.....	16	578	384,426	9,296
Due from Federal government and other grantors.....	8,778	504,373	—	163,668
Due from other funds.....	51,438	7,759	10,793	878
Due from component units.....	—	21	—	—
Interfund receivables.....	5,662	580	286,084	—
Inventories.....	12,783	15,592	—	5,189
Restricted assets:				
Cash and cash equivalents.....	—	—	523,870	150,902
Investments.....	—	—	—	—
Accounts receivable.....	—	—	432,464	—
Other.....	—	—	29,890	—
Prepaid items.....	—	162	—	5,985
Other assets.....	—	—	—	771
Total assets.....	\$ 1,755,315	\$ 1,181,940	\$ 2,084,652	\$ 630,283
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts payable.....	\$ 163,625	\$ 337,284	\$ 11,793	\$ 123,117
Accrued salaries and related expenditures.....	61,165	29,475	71	16,869
Accrued interest payable.....	—	—	—	299
Retainages payable.....	—	146	—	2,170
Tax refunds payable.....	501,916	—	—	—
Payable—aid to individuals/families.....	535	—	—	—
Intergovernmental payables.....	21,595	183,567	3,176	—
Due to other funds.....	55,008	69,272	38	16,274
Due to component units.....	2	—	—	—
Interfund payables.....	—	4,621	3,500	286,084
Deferred revenues.....	96,529	61,104	483,889	86,876
Securities lending collateral.....	333,690	6,313	91,645	41,798
Other liabilities.....	33,151	18	—	—
Total liabilities.....	1,267,216	691,800	594,112	573,487
Fund balances (deficits):				
Reserved.....	142,662	578	1,759,771	7,579
Unreserved, designated reported in:				
General Fund.....	345,437	—	—	—
Special revenue funds.....	—	—	—	—
Capital Projects Fund.....	—	—	—	—
Unreserved, undesignated reported in:				
Special revenue funds.....	—	489,562	(269,231)	49,217
Permanent funds.....	—	—	—	—
Total fund balances.....	488,099	490,140	1,490,540	56,796
Total liabilities and fund balances.....	\$ 1,755,315	\$ 1,181,940	\$ 2,084,652	\$ 630,283

The Notes to the Financial Statements are an integral part of this statement.

State Tobacco Settlement	Nonmajor Governmental Funds	Totals
\$ 490,840	\$ 679,545	\$ 2,792,812
—	—	22,387
3,854	109,933	587,233
—	710	194,553
220	3,868	17,328
—	—	329,416
—	126,971	489,338
—	—	23,106
—	26,520	420,836
—	5,649	682,468
—	8,731	79,599
—	21,244	21,265
—	4,397	296,723
—	23	33,587
—	—	674,772
—	113,729	113,729
—	—	432,464
—	37,165	67,055
—	—	6,147
—	—	771
\$ 494,914	\$ 1,138,485	\$ 7,285,589
\$ —	\$ 15,372	\$ 651,191
—	1,506	109,086
—	—	299
—	1,651	3,967
—	562	502,478
—	—	535
419	129,386	338,143
—	15,603	156,195
—	—	2
—	22,835	317,040
—	17,429	745,827
3,854	109,933	587,233
—	788	33,957
4,273	315,065	3,445,953
—	174,333	2,084,923
—	—	345,437
—	15,247	15,247
—	183,763	183,763
490,641	449,094	1,209,283
—	983	983
490,641	823,420	3,839,636
\$ 494,914	\$ 1,138,485	\$ 7,285,589

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2005

(Expressed in Thousands)

Total fund balances—governmental funds.....		\$ 3,839,636
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Non-depreciable capital assets.....	\$ 5,271,813	
Depreciable capital assets.....	10,039,860	
Accumulated depreciation.....	(3,097,060)	
Total capital assets.....		12,214,613
Bond issue costs are reported as current expenditures in the funds. However, issue costs are deferred and amortized over the life of the bonds and are included in governmental activities in the statement of net assets.....		
		20,968
Certain State revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.....		
		683,178
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.....		
		100,157
Eliminations relating to the consolidation of internal service funds resulted in an amount due from governmental activities to business-type activities in the statement of net assets.....		
		(3,652)
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds payable.....	(5,066,551)	
Notes payable.....	(7,371)	
Accrued interest on bonds.....	(66,763)	
Capital leases.....	(1,043)	
Compensated absences.....	(194,467)	
Intergovernmental payable.....	(400)	
Policy claims.....	(7,635)	
Other.....	(69,874)	
Total long-term liabilities.....		(5,414,104)
Net assets of governmental activities.....		\$ 11,440,796

Statement of Revenues, Expenditures, and Changes in Fund Balances

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
Revenues:				
Taxes:				
Individual income.....	\$ 2,754,497	\$ —	\$ 10,515	\$ —
Retail sales and use.....	2,341,244	693	—	—
Other.....	780,106	40,880	18,000	499,533
Licenses, fees, and permits.....	146,531	143,012	58,523	—
Interest and other investment income.....	27,596	2,244	53,263	8,385
Federal.....	122,567	5,075,921	17,894	718,989
Local and private grants.....	—	9,869	—	—
State grants.....	—	3,469	—	—
Departmental services.....	423,125	148,557	31,501	24,020
Contributions.....	25,424	300,537	68,473	—
Fines and penalties.....	24,943	60,662	—	—
Tobacco legal settlement.....	—	—	—	—
Other.....	26,471	51,579	—	5,017
Total revenues.....	6,672,504	5,837,423	258,169	1,255,944
Expenditures:				
Current:				
General government.....	289,505	216,509	464	—
Education.....	247,722	164,822	—	—
Health and environment.....	1,518,624	3,517,603	—	—
Social services.....	81,205	908,568	—	—
Administration of justice.....	461,495	106,750	—	—
Resources and economic development.....	78,290	93,392	140	—
Transportation.....	—	—	5,508	623,922
Capital outlay.....	2,163	—	—	537,924
Debt service:				
Principal retirement.....	161,735	596	29,395	26,599
Interest and fiscal charges.....	68,930	75	95,953	32,383
Intergovernmental.....	2,516,249	803,511	295,944	73,390
Total expenditures.....	5,425,918	5,811,826	427,404	1,294,218
Excess (deficiency) of revenues over (under) expenditures.....	1,246,586	25,597	(169,235)	(38,274)
Other financing sources (uses):				
Bonds issued.....	—	—	228,940	—
Refunding bonds issued.....	148,215	—	153,450	146,495
Premiums on bonds issued.....	5,877	—	35,005	294
Capital leases.....	700	—	—	—
Payment to refunded bond escrow agent.....	(152,264)	—	(173,790)	(6,747)
Transfers in.....	18,681	147,393	3,471	7,767
Transfers out.....	(788,655)	(21,502)	(21)	(5,640)
Total other financing sources (uses).....	(767,446)	125,891	247,055	142,169
Net change in fund balances.....	479,140	151,488	77,820	103,895
Fund balances (deficits) at beginning of year (restated).....	8,959	338,652	1,412,720	(47,099)
Fund balances at end of year.....	\$ 488,099	\$ 490,140	\$ 1,490,540	\$ 56,796

The Notes to the Financial Statements are an integral part of this statement.

State Tobacco Settlement	Nonmajor Governmental Funds	Totals
\$ —	\$ —	\$ 2,765,012
—	883,994	3,225,931
—	99,401	1,437,920
—	114,120	462,186
10,504	20,966	122,958
—	39,837	5,975,208
—	55	9,924
—	—	3,469
—	13,147	640,350
—	286,740	681,174
—	21,592	107,197
—	73,231	73,231
3	1,133	84,203
10,507	1,554,216	15,588,763
75	106,761	613,314
—	268,132	680,676
11,669	81,344	5,129,240
—	9,851	999,624
—	14,503	582,748
—	7,813	179,635
—	—	629,430
—	67,596	607,683
—	24,725	243,050
—	55,548	252,889
4,585	984,941	4,678,620
16,329	1,621,214	14,596,909
(5,822)	(66,998)	991,854
—	74,880	303,820
—	—	448,160
—	49	41,225
—	—	700
—	—	(332,801)
—	28,651	205,963
(2,408)	(97,037)	(915,263)
(2,408)	6,543	(248,196)
(8,230)	(60,455)	743,658
498,871	883,875	3,095,978
\$ 490,641	\$ 823,420	\$ 3,839,636

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

Net change in fund balances--total governmental funds.....	\$	743,658
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay.....	\$	679,366
Depreciation expense.....		(193,426)
Excess of capital outlay over depreciation expense.....		485,940
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.....		214,327
Losses on disposals of capital assets are reported as an expense in the statement of activities.....		(5,398)
Bond and note proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:		
Bonds and notes issued.....		(303,820)
Refunding bonds issued.....		(448,160)
Bond premiums.....		(41,225)
Net bond and note proceeds.....		(793,205)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets.....		5,157
Certain capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.....		(700)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement.....		241,130
Note principal retirement.....		1,400
Capital lease payments.....		520
Payment to bond refunding agent.....		332,801
Total long-term debt repayment.....		575,851
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is included in governmental activities in the statement of activities.....		83,028
Because certain receivables will not be collected soon enough after the State's fiscal year ends, the related revenues are not considered "available" and are deferred in the governmental funds.		
Decrease in deferred revenues.....		(1,202)

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

Eliminations relating to the consolidation of internal service funds resulted in a net decrease in expenses for the business-type activities in the statement of activities.....		\$	(19,282)
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:			
Net increase in accrued interest.....	\$	(733)	
Interest accreted on capital appreciation debt.....		(1,208)	
Amortization of bond issuance costs.....		(890)	
Net amortization of bond premiums and discounts.....		1,897	
Amortization of deferred losses on refunding of debt.....		(10,324)	
Net increase in compensated absences payable.....		(6,138)	
Decrease in intergovernmental payable.....		99	
Increase in policy claims payable.....		(2,000)	
Net decrease in other payables.....		18,021	
Total additional expenses.....			(1,276)
Change in net assets of governmental activities.....		\$	<u>1,286,898</u>

Statement of Net Assets

PROPRIETARY FUNDS

June 30, 2005

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 537,023	\$ 355,082	\$ 23,226
Investments.....	42,583	—	—
Invested securities lending collateral.....	58,663	2,326	9,876
Receivables, net:			
Accounts.....	38,515	7,891	108
Contributions.....	4,149	—	—
Participants.....	—	—	—
Accrued interest.....	3,572	109	13
Student accounts.....	36,140	—	—
Patient accounts.....	—	—	—
Loans and notes.....	81	—	43,492
Assessments.....	—	53,433	—
Due from Federal government and other grantors.....	89,875	1,118	1,406
Due from other funds.....	25,490	24	—
Due from component units.....	88,813	—	—
Inventories.....	14,689	—	—
Restricted assets:			
Cash and cash equivalents.....	42,487	—	51,176
Investments.....	67	—	—
Loans receivable.....	215	—	—
Other.....	199	—	—
Prepaid items.....	18,693	—	—
Other current assets.....	2,110	—	—
Total current assets.....	1,003,364	419,983	129,297
Long-term assets:			
Investments.....	17,196	—	544
Receivables, net:			
Accounts.....	583	—	—
Contributions.....	1,517	—	—
Participants.....	—	—	—
Loans and notes.....	742	—	24,797
Interfund receivables.....	—	—	—
Restricted assets:			
Cash and cash equivalents.....	215,355	—	255,608
Investments.....	16	—	3,924
Loans receivable.....	52,985	—	483,545
Other.....	8,850	—	5,796
Prepaid items.....	1,446	—	—
Other long-term assets.....	4,900	—	—
Deferred charges.....	1,366	—	5,240
Capital assets:			
Land and improvements.....	212,742	—	—
Buildings and improvements.....	2,827,181	—	—
Construction in progress.....	315,081	—	—
Vehicles.....	38,441	—	—
Machinery and equipment.....	435,373	—	1,098
Works of art and historical treasures.....	16,810	—	—
Intangible assets.....	10,959	—	—
Less: accumulated depreciation.....	(1,400,824)	—	(245)
Total capital assets, net	2,455,763	—	853
Total long-term assets.....	2,760,719	—	780,307
Total assets.....	3,764,083	419,983	909,604

The Notes to the Financial Statements are an integral part of this statement.

FUNDS					
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS	
\$ 36,156	\$ 145,448	\$ 180,596	\$ 1,277,531	\$ 318,481	
—	—	35,114	77,697	—	
—	—	29,204	100,069	24,349	
3,042	15,166	2,611	67,333	97,075	
—	—	179	4,328	—	
—	—	6,255	6,255	—	
—	133	558	4,385	3,016	
—	—	—	36,140	—	
104,281	—	27,971	132,252	—	
—	76,400	—	119,973	—	
—	—	—	53,433	—	
—	—	—	92,399	—	
—	—	9,486	35,000	42,030	
—	—	—	88,813	4	
10,585	—	3,910	29,184	6,796	
10,077	51,481	47,535	202,756	—	
—	—	8,072	8,139	—	
—	—	90	305	—	
—	—	2,278	2,477	—	
2,532	—	999	22,224	9,879	
—	—	1,176	3,286	—	
166,673	288,628	356,034	2,363,979	501,630	
—	—	—	17,740	204,154	
—	—	—	583	90	
—	—	195	1,712	—	
—	—	18,948	18,948	—	
—	696,005	—	721,544	—	
—	—	41,877	41,877	44,288	
257,283	—	10,175	738,421	—	
58,495	395	60,087	122,917	—	
—	—	14,565	551,095	—	
—	—	645	15,291	—	
—	—	14,110	15,556	—	
15,017	—	9,586	29,503	—	
—	2,727	—	9,333	149	
6,093	—	25,231	244,066	8,604	
227,350	—	85,453	3,139,984	186,501	
85,051	—	4,123	404,255	42	
1,940	17	704	41,102	46,323	
147,498	375	18,495	602,839	57,832	
—	—	7,955	24,765	—	
—	—	5,701	16,660	12,238	
(199,195)	(152)	(49,955)	(1,650,371)	(165,234)	
268,737	240	97,707	2,823,300	146,306	
599,532	699,367	267,895	5,107,820	394,987	
766,205	987,995	623,929	7,471,799	896,617	

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2005

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
LIABILITIES			
Current liabilities:			
Accounts payable.....	\$ 64,575	\$ 1,850	\$ —
Accrued salaries and related expenses.....	48,394	—	460
Accrued interest payable.....	7,870	—	—
Retainages payable.....	9,545	—	—
Tax refunds payable.....	—	4,018	—
Unemployment benefits payable.....	—	6,554	—
Intergovernmental payables.....	—	4,032	734
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	16,142	4,998	27
Unearned revenues.....	102,556	—	—
Deposits.....	5,648	—	—
Amounts held in custody for others.....	5,371	—	—
Securities lending collateral.....	58,663	2,326	9,876
Liabilities payable from restricted assets:			
Accounts payable.....	5	—	—
Accrued interest payable.....	—	—	14,904
Bonds payable.....	—	—	28,588
Other.....	—	—	7,685
Notes payable.....	6,194	—	—
Revenue bond anticipation notes payable.....	9,345	—	—
General obligation bonds payable.....	13,075	—	—
Revenue bonds payable.....	17,819	—	—
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	4,390	—	—
Compensated absences payable.....	42,884	—	352
Other current liabilities.....	3,567	—	184
Total current liabilities.....	416,043	23,778	62,810
Long-term liabilities:			
Retainages payable.....	759	—	—
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Interfund payables.....	45,855	—	—
Liabilities payable from restricted assets:			
Other.....	—	—	—
Notes payable.....	74,599	—	—
General obligation bonds payable.....	217,348	—	—
Revenue bonds payable.....	425,845	—	602,640
Limited obligation bonds payable.....	—	—	—
Capital leases payable.....	34,033	—	—
Compensated absences payable.....	48,385	—	261
Other long-term liabilities.....	58,349	—	—
Total long-term liabilities.....	905,173	—	602,901
Total liabilities.....	1,321,216	23,778	665,711

The Notes to the Financial Statements are an integral part of this statement.

FUNDS				INTERNAL SERVICE FUNDS
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	
\$ 27,107	\$ 93,498	\$ 15,847	\$ 202,877	\$ 8,602
13,378	—	7,540	69,772	3,998
6,836	—	1,115	15,821	793
3,179	—	401	13,125	36
—	—	—	4,018	—
—	—	—	6,554	—
—	—	—	4,766	—
—	—	9,077	9,077	—
—	—	38,500	38,500	482,502
13,409	—	1,306	35,882	2,494
—	—	13,314	115,870	127,174
—	—	—	5,648	—
—	—	—	5,371	—
—	—	29,204	100,069	24,349
—	—	2	7	—
—	7,276	480	22,660	—
—	48,035	—	76,623	—
—	—	41,555	49,240	—
—	—	11,550	17,744	546
—	—	—	9,345	—
—	—	—	13,075	—
—	—	974	18,793	1,260
—	—	—	—	4,120
5,725	—	340	10,455	610
14,066	211	2,865	60,378	3,486
73	990	2,520	7,334	5,367
<u>83,773</u>	<u>150,010</u>	<u>176,590</u>	<u>913,004</u>	<u>665,337</u>
—	—	—	759	—
—	—	158,279	158,279	—
—	—	171,867	171,867	81,748
—	—	14,399	60,254	5,594
—	10,464	—	10,464	—
—	—	131,737	206,336	2,394
—	—	—	217,348	—
474,309	696,048	17,774	2,216,616	22,261
—	—	—	—	15,272
7,623	—	444	42,100	1,203
—	—	1,154	49,800	2,651
—	1,537	2,084	61,970	—
<u>481,932</u>	<u>708,049</u>	<u>497,738</u>	<u>3,195,793</u>	<u>131,123</u>
<u>565,705</u>	<u>858,059</u>	<u>674,328</u>	<u>4,108,797</u>	<u>796,460</u>

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2005

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
NET ASSETS			
Invested in capital assets, net of related debt.....	\$ 1,701,387	\$ —	\$ 853
Restricted:			
Expendable:			
Unemployment compensation benefits.....	—	396,205	—
Education.....	131,806	—	—
Capital projects.....	116,577	—	—
Debt service.....	24,624	—	51,850
Loan programs.....	—	—	188,316
Insurance programs.....	—	—	—
Nonexpendable:			
Education.....	53,189	—	—
Unrestricted.....	415,284	—	2,874
Total net assets (deficit).....	\$ 2,442,867	\$ 396,205	\$ 243,893
Adjustment in Higher Education Fund related to consolidation of internal service funds			
Net assets of business-type activities.....			

FUNDS				INTERNAL SERVICE FUNDS
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	
\$ 35,746	\$ 240	\$ 39,846	\$ 1,778,072	\$ 122,160
—	—	—	396,205	—
—	—	25,563	157,369	—
—	—	3,810	120,387	—
71,189	96,648	13,368	257,679	—
—	31,971	—	220,287	20,000
—	—	—	—	27,307
—	—	23,429	76,618	406
93,565	1,077	(156,415)	356,385	(69,716)
\$ 200,500	\$ 129,936	\$ (50,399)	3,363,002	\$ 100,157
.....	3,652	
.....	\$ 3,366,654	

Statement of Revenues, Expenses, and Changes in Fund Net Assets

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Operating revenues:			
Assessments.....	\$ —	\$ 276,077	\$ —
Charges for services.....	832,516	—	7,956
Contributions.....	—	—	—
Interest and other investment income.....	—	539	40,551
Operating revenues pledged for revenue bonds.....	136,597	—	—
Federal operating grants and contracts.....	485,071	23,435	—
State operating grants and contracts.....	194,110	—	—
Local/private operating grants and contracts.....	52,696	—	—
Other operating revenues.....	173,445	19,525	98
Total operating revenues.....	1,874,435	319,576	48,605
Operating expenses:			
General operations and administration.....	2,398,904	243	9,673
Benefits and claims.....	—	366,577	—
Tuition plan disbursements.....	—	—	—
Interest.....	—	—	31,294
Depreciation and amortization.....	115,424	—	392
Scholarships and fellowships.....	148,562	—	—
Other operating expenses.....	—	—	3,157
Total operating expenses.....	2,662,890	366,820	44,516
Operating income (loss).....	(788,455)	(47,244)	4,089
Nonoperating revenues (expenses):			
Federal and local government appropriations.....	57,136	—	—
Interest income.....	25,769	13,449	—
Contributions.....	78,401	—	—
Federal grants and contracts.....	5,049	—	107,836
Local/private grants and contracts.....	6,150	—	—
Interest expense.....	(33,091)	—	—
Net other nonoperating revenues (expenses).....	5,055	—	(102,505)
Total nonoperating revenues (expenses).....	144,469	13,449	5,331
Income (loss) before other revenues, expenses, losses, and transfers.....	(643,986)	(33,795)	9,420
Capital contributions.....	—	—	—
Federal capital grants and contracts.....	38,009	—	—
Local/private capital grants and contracts.....	16,802	—	—
Additions to endowments.....	15,242	—	—
Extraordinary loss on early extinguishment of debt.....	—	—	(556)
Transfers in.....	768,075	30	300
Transfers out.....	(22,809)	(1,102)	(300)
Change in net assets.....	171,333	(34,867)	8,864
Net assets at beginning of year.....	2,271,534	431,072	235,029
Net assets (deficit) at end of year.....	\$ 2,442,867	\$ 396,205	\$ 243,893

Adjustment in Higher Education Fund related to consolidation of internal service funds.....

Change in net assets of business-type activities.....

FUNDS

Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
\$ —	\$ —	\$ —	\$ 276,077	\$ —
624,942	42,660	279,146	1,787,220	1,654,375
—	—	16,852	16,852	571
—	4,452	4,986	50,528	1,098
—	—	2,038	138,635	—
—	—	—	508,506	—
—	—	—	194,110	—
—	—	—	52,696	—
13,084	16	29,047	235,215	21,593
638,026	47,128	332,069	3,259,839	1,677,637
579,030	22,147	215,526	3,225,523	312,327
—	—	46,577	413,154	1,278,901
—	—	26,653	26,653	—
—	17,586	—	48,880	13
20,260	256	5,193	141,525	12,391
—	—	—	148,562	—
—	3,578	228	6,963	5,392
599,290	43,567	294,177	4,011,260	1,609,024
38,736	3,561	37,892	(751,421)	68,613
—	—	—	57,136	—
2,826	—	4,630	46,674	19,316
—	—	1,426	79,827	—
—	—	—	112,885	—
—	—	137	6,287	—
(10,037)	—	(7,411)	(50,539)	(2,172)
—	1,916	4,657	(90,877)	4,248
(7,211)	1,916	3,439	161,393	21,392
31,525	5,477	41,331	(590,028)	90,005
—	—	—	—	8
—	—	—	38,009	—
—	—	355	17,157	—
—	—	763	16,005	—
—	—	—	(556)	—
—	—	507	768,912	3,417
(11,189)	—	(19,273)	(54,673)	(10,402)
20,336	5,477	23,683	194,826	83,028
180,164	124,459	(74,082)		17,129
\$ 200,500	\$ 129,936	\$ (50,399)		\$ 100,157

19,282

\$ 214,108

Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from operating activities:			
Receipts from customers, patients, and third-party payers.....	\$ 1,013,848	\$ —	\$ —
Assessments received.....	—	276,886	—
Grants received.....	726,873	19,529	—
Receipts from collection of loans and notes.....	317,463	—	119,640
Receipts of funds held for others.....	133,620	—	—
Internal activity—payments from other funds.....	66,278	—	—
Tuition plan contributions received.....	—	—	—
Other operating cash receipts.....	32,041	18,675	12,547
Claims and benefits paid.....	—	(363,404)	(2,625)
Payments to suppliers for goods and services.....	(912,730)	—	(6,375)
Payments to employees.....	(1,516,593)	—	(5,190)
Payments for scholarships and fellowships.....	(120,879)	—	—
Loans issued to students.....	(316,357)	—	—
Payments of funds held for others.....	(100,593)	—	—
Program loans issued.....	—	—	(114,441)
Internal activity—payments to other funds.....	—	—	—
Other operating cash payments.....	(999)	(439)	—
Net cash provided by (used in) operating activities.....	(678,028)	(48,753)	3,556
Cash flows from noncapital financing activities:			
State, county, and local appropriations.....	48,837	—	—
Federal appropriations.....	10,986	—	—
Funds held for others.....	(44)	—	—
Principal payments received from other funds.....	20	—	—
Principal payments made to other funds.....	—	—	—
Receipt of interest from other funds.....	—	—	—
Interest payments made to other funds.....	—	—	—
Loans received from other funds.....	—	—	—
Proceeds from sale of revenue bonds.....	—	—	184,468
Principal payments on revenue bonds.....	—	—	(64,225)
Proceeds from issuance of noncapital debt.....	3,000	—	—
Principal paid on noncapital debt.....	(245)	—	—
Interest payments on noncapital debt.....	(143)	—	(29,938)
Payment of bond issuance costs.....	—	—	(1,538)
Gifts and grants for other than capital purposes.....	130,367	—	—
Federal revenue.....	—	—	106,446
Payments from Federal grants.....	—	—	(103,228)
Other cash receipts.....	1,737	—	—
Other cash payments.....	(355)	(500)	—
Transfers in.....	768,075	30	300
Transfers out.....	(22,809)	(1,102)	(300)
Net cash provided by (used in) noncapital financing activities.....	939,426	(1,572)	91,985

The Notes to the Financial Statements are an integral part of this statement.

FUNDS

Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
\$ 562,498	\$ 34,631	\$ 279,461	\$ 1,890,438	\$ 1,199,823
—	—	127,424	404,310	—
—	—	—	746,402	—
—	485,678	—	922,781	—
—	—	—	133,620	—
—	—	—	66,278	465,345
—	—	15,362	15,362	—
10,372	—	26,270	99,905	37,697
—	—	(206,735)	(572,764)	(1,240,941)
(186,247)	(42,094)	(88,230)	(1,235,676)	(244,911)
(255,389)	(3,084)	(115,685)	(1,895,941)	(69,013)
—	—	—	(120,879)	—
—	—	—	(316,357)	—
—	—	—	(100,593)	—
—	(647,181)	—	(761,622)	—
(66,278)	—	—	(66,278)	(17,508)
—	—	(5,910)	(7,348)	(12)
64,956	(172,050)	31,957	(798,362)	130,480
—	—	—	48,837	—
—	—	—	10,986	—
—	—	—	(44)	—
—	—	—	20	1,246
—	—	(585)	(585)	(344)
—	—	—	—	1,290
—	—	(1,199)	(1,199)	—
—	—	—	—	2,827
—	174,700	—	359,168	—
—	(20,995)	—	(85,220)	—
—	—	7,000	10,000	—
—	—	(23,850)	(24,095)	—
—	(13,443)	(4,276)	(47,800)	—
—	(886)	—	(2,424)	—
—	—	3,044	133,411	—
—	—	—	106,446	—
—	—	—	(103,228)	—
—	—	69	1,806	—
—	(264)	(552)	(1,671)	—
—	—	507	768,912	3,417
(11,189)	—	(19,273)	(54,673)	(10,402)
(11,189)	139,112	(39,115)	1,118,647	(1,966)

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Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from capital and related financing activities:			
Capital appropriations.....	\$ 5,396	\$ —	\$ —
Acquisition of capital assets	(293,895)	—	(907)
Principal payments received from other funds.....	—	—	—
Principal payments on notes payable	(6,065)	—	—
Principal payments on limited obligation bonds.....	—	—	—
Proceeds from issuance of capital debt.....	268,693	—	—
Bond proceeds transferred to county.....	(11,565)	—	—
Principal paid on capital debt and lease.....	(140,319)	—	—
Interest payments on capital debt.....	(32,669)	—	—
Payment of agent and broker fees.....	(392)	—	—
Proceeds from sale or disposal of capital assets.....	2,875	—	—
Capital grants and gifts received.....	46,594	—	—
Net cash provided by (used in) capital and related financing activities.....	(161,347)	—	(907)
Cash flows from investing activities:			
Proceeds from sales and maturities of investments.....	111,240	—	—
Purchase of investments	(115,354)	—	—
Interest and dividends on investments.....	20,439	13,974	6,950
Collection of escrow payments from borrower.....	—	—	—
Net cash provided by (used in) investing activities.....	16,325	13,974	6,950
Net increase (decrease) in cash and cash equivalents.....	116,376	(36,351)	101,584
Cash and cash equivalents at beginning of year (restated).....	678,489	391,433	228,426
Cash and cash equivalents at end of year.....	\$ 794,865	\$ 355,082	\$ 330,010
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (788,455)	\$ (47,244)	\$ 4,089
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	115,424	—	392
Provision for bad debts.....	315	—	—
Realized gains and losses on investments.....	—	—	—
Issuance of loans and notes.....	—	—	(114,441)
Collection of loans and notes.....	—	—	84,815
Interest payments reclassified as noncapital financing activities.....	—	—	31,294
Interest and dividends on investments and interfund loans.....	—	(539)	(7,865)
Amounts received for payment of claims.....	—	—	—
Payment of claims.....	—	—	—
Other nonoperating revenues.....	—	—	—
Other nonoperating expenses.....	—	—	—
Other.....	812	(196)	(814)

The Notes to the Financial Statements are an integral part of this statement.

FUNDS

Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
\$ —	\$ —	\$ —	\$ 5,396	\$ —
(63,811)	(91)	(21,808)	(380,512)	(9,020)
—	—	—	—	1,190
—	—	—	(6,065)	—
—	—	—	—	(3,930)
494,200	—	—	762,893	—
—	—	—	(11,565)	—
(137,452)	—	(1,743)	(279,514)	(448)
(3,551)	—	(3,592)	(39,812)	(2,380)
(15,360)	—	(121)	(15,873)	—
2,261	—	208	5,344	184
—	—	355	46,949	—
276,287	(91)	(26,701)	87,241	(14,404)
13,784	156	92,335	217,515	117,052
(68,947)	—	(101,243)	(285,544)	(62,164)
375	4,461	12,701	58,900	19,904
—	—	786	786	—
(54,788)	4,617	4,579	(8,343)	74,792
275,266	(28,412)	(29,280)	399,183	188,902
28,250	225,341	267,586	1,819,525	129,579
\$ 303,516	\$ 196,929	\$ 238,306	\$ 2,218,708	\$ 318,481

\$ 38,736	\$ 3,561	\$ 37,892	\$ (751,421)	\$ 68,613
20,260	256	5,193	141,525	12,391
—	308	—	623	—
—	—	(3,982)	(3,982)	—
—	(673,090)	—	(787,531)	—
—	419,736	—	504,551	—
—	18,080	—	49,374	—
—	(4,405)	(4,986)	(17,795)	—
—	—	125,744	125,744	—
—	—	(166,925)	(166,925)	—
—	—	744	744	3,626
—	—	(1,006)	(1,006)	—
1,346	—	4,769	5,917	(322)

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Change in assets—decreases (increases):			
Accounts receivable, net.....	\$ (24,550)	\$ (826)	\$ 4,766
Receivable from participants, net.....	—	—	—
Patient accounts receivable, net.....	—	401	—
Accrued interest.....	—	—	—
Loans receivable.....	(440)	788	(1,759)
Due from Federal government and other grantors.....	—	—	2,489
Due from other funds.....	—	(24)	—
Inventories.....	—	—	—
Other assets.....	(8,772)	—	—
Change in liabilities—increases (decreases):			
Accounts payable.....	10,948	1,660	—
Accrued salaries and related expenses.....	4,787	—	(51)
Accrued interest payable.....	221	—	—
Retainages payable.....	—	—	—
Tax refunds payable.....	—	408	—
Unemployment benefits payable.....	—	1,470	—
Intergovernmental payables.....	—	43	557
Tuition benefits payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	—	(4,694)	(30)
Deferred revenues.....	7,879	—	—
Deposits.....	493	—	—
Liabilities payable from restricted assets.....	—	—	41
Compensated absences payable.....	5,115	—	(20)
Other liabilities.....	(1,805)	—	93
Net cash provided by (used in) operating activities.....	\$ (678,028)	\$ (48,753)	\$ 3,556
Noncash capital, investing, and financing activities:			
Acquisition of capital assets through:			
Assumption of liabilities.....	\$ 26,124	\$ —	\$ —
Donations.....	4,054	—	—
Disposal of capital assets.....	(1,435)	—	—
Assignment of Perkins Loans.....	440	—	—
Increase (decrease) in fair value of investments.....	3,632	—	(139)
Accrual of arbitrage income.....	—	—	—
Principal amount of bonds refunded.....	—	—	—
Long-term debt forgiven.....	—	—	—
Total noncash capital, investing, and financing activities.....	\$ 32,815	\$ —	\$ (139)

The Notes to the Financial Statements are an integral part of this statement.

FUNDS				INTERNAL SERVICE FUNDS
Medical University Hospital Authority	Education Assistance Authority	Nonmajor Enterprise	Totals	
\$ (2,708)	\$ (1,204)	\$ (1,681)	\$ (26,203)	\$ 131
—	—	(1,490)	(1,490)	—
—	—	—	401	—
—	—	79	79	24
—	—	—	(1,411)	—
—	—	—	2,489	—
—	—	(283)	(307)	(5,459)
—	—	(8)	(8)	353
—	—	4,517	(4,255)	1,277
10,350	64,590	1,111	88,659	3,084
—	—	52	4,788	112
—	—	—	221	(61)
—	—	—	—	9
—	—	—	408	—
—	—	—	1,470	—
—	—	—	600	—
—	—	24,078	24,078	—
—	—	6,767	6,767	38,173
—	—	(145)	(4,869)	167
—	—	355	8,234	8,000
—	—	—	493	—
—	—	(90)	(49)	—
—	38	140	5,273	362
(3,028)	80	1,112	(3,548)	—
<u>\$ 64,956</u>	<u>\$ (172,050)</u>	<u>\$ 31,957</u>	<u>\$ (798,362)</u>	<u>\$ 130,480</u>
\$ —	\$ —	\$ —	\$ 26,124	\$ —
—	—	—	4,054	—
—	—	—	(1,435)	—
—	—	—	440	—
—	—	2,788	6,281	1,384
—	1,917	—	1,917	—
—	3,000	—	3,000	—
—	—	—	—	757
<u>\$ —</u>	<u>\$ 4,917</u>	<u>\$ 2,788</u>	<u>\$ 40,381</u>	<u>\$ 2,141</u>

Statement of Fiduciary Net Assets

FIDUCIARY FUNDS

June 30, 2005

(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
ASSETS				
Cash and cash equivalents.....	\$ 2,845,639	\$ 915,613	\$ 26,880	\$ 163,503
Receivables, net:				
Accounts.....	—	—	—	5,186
Contributions.....	130,867	—	—	—
Employer long-term.....	1,785	—	—	—
Accrued interest.....	114,614	4,375	447	675
Unsettled investment sales.....	49,450	—	455	—
Taxes.....	—	—	—	2,486
Total receivables.....	296,716	4,375	902	8,347
Due from other funds.....	6,914	—	—	60,384
Investments, at fair value:				
United States government securities.....	3,122,504	214,407	—	—
United States government agencies and government-insured securities.....	1,990,199	308,299	—	—
Corporate bonds.....	4,443,116	418,317	—	—
Financial and other.....	2,067,961	9,101	489,411	37,242
Equities.....	11,028,468	—	—	—
Total investments.....	22,652,248	950,124	489,411	37,242
Securities held in lieu of surety bonds.....	—	—	—	314,561
Invested securities lending collateral.....	4,110,949	566,374	1,166	15,749
Capital assets, net	3,814	—	—	—
Other assets.....	165	—	4,665	—
Total assets.....	29,916,445	2,436,486	523,024	599,786
LIABILITIES				
Accounts payable.....	5,661	—	984	18,501
Accounts payable—unsettled investment purchases.....	62,196	—	339	—
Due to other funds.....	29,356	—	—	—
Tax refunds payable.....	—	—	—	664
Intergovernmental payables.....	—	—	—	2,366
Deposits.....	—	—	—	1,115
Amounts held in custody for others.....	—	—	—	561,391
Deferred retirement benefits.....	884,776	—	—	—
Securities lending collateral.....	4,110,949	566,374	1,166	15,749
Other liabilities.....	3,539	1,552	—	—
Total liabilities.....	5,096,477	567,926	2,489	599,786
NET ASSETS				
Held in trust for:				
Pension benefits.....	24,819,968	—	—	—
External investment pool participants.....	—	1,868,560	—	—
Other purposes.....	—	—	520,535	—
Total net assets.....	\$ 24,819,968	\$ 1,868,560	\$ 520,535	\$ —

The Notes to the Financial Statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets

FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
Additions:			
Licenses, fees, and permits.....	\$ —	\$ —	\$ 177
Contributions:			
Employer.....	640,483	—	—
Employee.....	495,012	—	—
Deposits from pool participants.....	—	4,990,396	—
Tuition plan deposits.....	—	—	136,856
Total contributions.....	1,135,495	4,990,396	136,856
Investment income:			
Interest income and net appreciation in investments.....	1,697,096	48,569	33,818
Securities lending income.....	86,006	19,890	—
Total investment income.....	1,783,102	68,459	33,818
Less investment expense:			
Investment expense.....	22,406	—	—
Securities lending expense.....	76,017	18,397	—
Net investment income.....	1,684,679	50,062	33,818
Transfers between pension trust funds.....	2,142	—	—
Transfers in.....	2,046	—	—
Total additions.....	2,824,362	5,040,458	170,851
Deductions:			
Regular retirement benefits.....	1,342,230	—	—
Supplemental retirement benefits.....	2,046	—	—
Deferred retirement benefits.....	338,778	—	—
Refunds of retirement contributions to members.....	80,906	—	—
Group life insurance claims.....	15,195	—	—
Accidental death benefits.....	1,047	—	—
Withdrawals, pool participants.....	—	5,155,312	—
Distributions to pool participants.....	—	41,881	—
Depreciation.....	119	—	—
Administrative expense.....	16,182	78	4,036
Payments in accordance with trust agreements.....	—	—	202
Transfers between pension trust funds.....	2,142	—	—
Other expenses.....	—	—	8
Total deductions.....	1,798,645	5,197,271	4,246
Change in net assets.....	1,025,717	(156,813)	166,605
Net assets at beginning of year (restated).....	23,794,251	2,025,373	353,930
Net assets at end of year.....	\$ 24,819,968	\$ 1,868,560	\$ 520,535

The Notes to the Financial Statements are an integral part of this statement.

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2005

(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
ASSETS						
Current assets:						
Cash and cash equivalents.....	\$ 38,328	\$ 118,836	\$ 682	\$ 17,680	\$ 30,419	\$ 205,945
Investments.....	101,041	—	203	—	47,558	148,802
Invested securities lending collateral.....	—	15,749	—	—	365	16,114
Receivables, net						
Accounts	141,114	20,460	—	28,920	510	191,004
Contributions	—	—	—	—	10,851	10,851
Accrued interest	2,044	—	25	—	606	2,675
Due from primary government.....	—	—	—	—	2	2
Inventories.....	107,966	3,811	90	2,405	—	114,272
Restricted assets:						
Cash and cash equivalents.....	116,555	—	791	455	6,682	124,483
Investments.....	51,405	—	1,240	—	—	52,645
Prepaid items.....	3,857	3,297	51	—	26	7,231
Other current assets.....	14,724	142	—	263	—	15,129
Deferred charges.....	—	—	—	—	1,532	1,532
Total current assets.....	577,034	162,295	3,082	49,723	98,551	890,685
Long-term assets:						
Receivables, net:						
Accounts.....	—	—	—	—	2,211	2,211
Contributions.....	—	—	—	—	34,553	34,553
Investments.....	52,173	6,091	—	—	516,887	575,151
Restricted assets:						
Cash and cash equivalents.....	98,053	—	—	—	—	98,053
Investments.....	402,414	—	16,773	—	—	419,187
Other.....	—	—	473	—	—	473
Other long-term assets.....	695	—	—	7,753	86	8,534
Deferred charges.....	383,688	16,918	4,267	—	—	404,873
Investment in joint venture.....	6,816	—	—	—	—	6,816
Non-depreciable capital assets.....	733,374	200,894	—	—	8,971	943,239
Depreciable capital assets, net.....	2,431,885	235,936	173,221	8,710	554	2,850,306
Total long-term assets.....	4,109,098	459,839	194,734	16,463	563,262	5,343,396
Total assets.....	4,686,132	622,134	197,816	66,186	661,813	6,234,081

The Notes to the Financial Statements are an integral part of this statement.

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS (Continued)

June 30, 2005

(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
LIABILITIES						
Current liabilities:						
Accounts payable.....	\$ 128,495	\$ 5,197	\$ 38	\$ 5,415	\$ 1,617	\$ 140,762
Accrued salaries and related expenses.....	6,660	3,349	—	822	64	10,895
Accrued interest payable.....	78,456	3,100	—	—	—	81,556
Retainages payable.....	—	846	—	—	—	846
Prizes payable.....	—	—	—	27,632	—	27,632
Intergovernmental payables.....	—	16	—	—	103	119
Policy claims.....	2,375	—	—	—	35,000	37,375
Due to primary government.....	—	—	—	21,244	88,838	110,082
Deferred revenues and deferred credits.....	—	3,722	124	998	25,082	29,926
Deposits.....	—	—	11	—	—	11
Securities lending collateral.....	—	15,749	—	—	365	16,114
Liabilities payable from restricted assets:						
Accounts payable.....	—	—	12	—	247	259
Accrued interest payable.....	—	—	1,766	—	—	1,766
Notes payable.....	—	445	—	1,104	—	1,549
Revenue bonds payable.....	76,825	3,025	—	—	—	79,850
Capital leases payable.....	2,771	37	—	—	—	2,808
Commercial paper notes.....	193,317	—	—	—	—	193,317
Compensated absences payable.....	—	2,003	—	58	83	2,144
Other current liabilities.....	50,279	3,048	225	56	360	53,968
Total current liabilities.....	539,178	40,537	2,176	57,329	151,759	790,979
Long-term liabilities:						
Retainages payable.....	26,824	—	—	—	—	26,824
Policy claims.....	—	—	—	—	149,816	149,816
Deferred revenues and deferred credits.....	260,613	—	—	—	—	260,613
Amounts held in custody for others.....	—	—	—	—	2,325	2,325
Notes payable.....	—	2,874	—	1,113	150	4,137
Revenue bonds payable.....	2,589,984	137,445	264,444	—	—	2,991,873
Capital leases payable.....	12,158	98	—	—	—	12,256
Compensated absences payable.....	13,867	—	—	796	48	14,711
Other long-term liabilities.....	42,329	13,548	—	—	10,220	66,097
Total long-term liabilities.....	2,945,775	153,965	264,444	1,909	162,559	3,528,652
Total liabilities.....	3,484,953	194,502	266,620	59,238	314,318	4,319,631
NET ASSETS (DEFICITS)						
Invested in capital assets, net of related debt..	637,714	290,949	(29,674)	6,493	9,526	915,008
Restricted:						
Expendable:						
Education.....	—	—	—	—	156,743	156,743
Capital projects.....	18,294	—	11	—	—	18,305
Debt service.....	111,859	6,091	254	—	—	118,204
Other.....	122,608	—	—	455	2,262	125,325
Nonexpendable, education.....	—	—	—	—	284,074	284,074
Unrestricted.....	310,704	130,592	(39,395)	—	(105,110)	296,791
Total net assets (deficit).....	\$ 1,201,179	\$ 427,632	\$ (68,804)	\$ 6,948	\$ 347,495	\$ 1,914,450

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2005

(Expressed in Thousands)

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Public Service Authority.....	\$ 1,087,331	\$ 1,154,870	\$ 11,160	\$ —
State Ports Authority.....	107,503	138,392	3,542	10,570
Connector 2000 Association, Inc.....	22,870	3,769	1,018	—
Lottery Commission.....	962,980	960,149	590	—
Nonmajor component units.....	112,053	41,878	105,077	—
Totals.....	\$ 2,292,737	\$ 2,299,058	\$ 121,387	\$ 10,570

The Notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue	Net Assets (Deficit) Beginning of Year	Net Assets (Deficit) End of Year
\$ 78,699	\$ 1,122,480	\$ 1,201,179
45,001	382,631	427,632
(18,083)	(50,721)	(68,804)
(2,241)	9,189	6,948
34,902	312,593	347,495
\$ 138,278	\$ 1,776,172	\$ 1,914,450

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Scope of Reporting Entity

The South Carolina General Assembly (an elected legislative body) and several elected executives govern the State of South Carolina. The accompanying financial statements present the activities of the State of South Carolina's primary government and its component units.

Component units are legally separate organizations for which the State is financially accountable. Blended component units, although legally separate from the State, are part of the State's operations in substance. Accordingly, the State presents them as funds in its fund financial statements and as activities in its government-wide financial statements. In contrast, the State excludes its discretely presented component units from the fund financial statements included within its basic financial statements and it reports the discretely presented component units separately in its government-wide financial statements.

As explained more fully below, the State's primary government and its component units include various State funds, agencies, departments, institutions, authorities, and other organizations.

Primary Government

The State's primary government includes all constitutional offices, departments, agencies, commissions, and authorities unless otherwise noted below. Most of these have executives or boards appointed by the Governor, the General Assembly, or a combination thereof. These entities are financially accountable to, and fiscally dependent on, the State.

Although they operate somewhat autonomously, the entities listed below are included in the State's primary government because they lack full corporate powers.

Fiscal year ended June 30, 2005:

- State Housing Finance and Development Authority
- South Carolina Education Assistance Authority
- Jobs-Economic Development Authority
- Patriots Point Development Authority

Fiscal year ended December 31, 2004:

- The Public Railways Division of the Department of Commerce

The State's five retirement systems are part of the State's primary government. The State Budget and Control Board, which consists of five elected officials, serves as trustee of the systems. The State Treasurer is custodian of the funds.

The State reports ten State-supported universities and sixteen area technical colleges within its Higher Education Fund, part of the primary government. Although the universities and colleges operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and the General Assembly appoint most of their boards and budget a significant portion of their funds.

The accompanying financial statements exclude the related foundations listed in Note 20 because the State does not significantly influence operations of the related foundations nor are the related foundations accountable to the State for fiscal matters.

Blended Component Units

Unless otherwise indicated below, the blended component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2005.

Tobacco Settlement Revenue Management Authority

The Tobacco Settlement Revenue Management Authority, a blended component unit accounted for as a governmental fund, commenced operations in August 2000. Its creation was in accordance with an act of the General Assembly that resulted from South Carolina's participation in a settlement (the Master Settlement Agreement or MSA) that arose out of litigation that a group of state governments brought against the tobacco industry. The legally separate Authority's primary purposes are (a) to receive all receipts due to South Carolina under the MSA after June 30, 2001, and (b) to issue the Authority's revenue bonds payable solely from, and secured solely by, those receipts. The Authority's governing board is composed of the Governor or his designee, the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. The State receives the funding from the bond issuances, except in the event that the Authority issues bonds expressly to refund its outstanding bonds.

Governor's School for the Arts Foundation, Inc.

The State's internal service funds include the Governor's School for the Arts Foundation, Inc., a blended component unit. The Foundation exists solely to support the South Carolina Governor's School for the Arts and Humanities.

Blended Component Units Associated with the Higher Education Fund

The State's enterprise funds include the following blended component units, all of which are associated with the Higher Education Fund, a major enterprise fund:

The *Medical University Hospital Authority* (the Authority) was created to manage and operate the Medical University of South Carolina's hospitals and clinics. The legislation establishing the Authority requires that the members of the Medical University's Board of Trustees also constitute the Authority's Board of Trustees. The Authority also is a major enterprise fund.

The *Citadel Trust, Inc.*, was formed for the purpose of investing funds in order to provide scholarship and other financial assistance or support to the Citadel.

The *University of South Carolina Trust (the Trust)* operates exclusively for the benefit of the University's School of Medicine to augment and aid education, research, and service in the field of health sciences. The financial information presented in the accompanying financial statements is for the Trust's fiscal year ended December 31, 2004.

University Medical Associates (UMA) was established to promote and support educational, medical, scientific, and research purposes of the Medical University of South Carolina (MUSC). UMA promotes the recruitment and retention of superior faculty at MUSC. UMA is a blended component unit because it almost exclusively benefits MUSC even though UMA does not provide all of its services directly to MUSC.

The *Medical University Facilities Corporation* was established to obtain financing for the Medical University of South Carolina to purchase land, an office building, and a parking garage.

The *CHS Development Company* was established to provide financing services for the Medical University of South Carolina by developing and leasing property.

The *Pharmaceutical Education and Development Foundation (PEDF)* promotes educational, research, clinical, and other facilities and programs of the Medical University of South Carolina's College of Pharmacy. PEDF is a nongovernmental component unit.

Obtaining More Information about Blended Component Units

One may obtain complete financial statements for the above blended component units from the following administrative offices:

South Carolina Tobacco Settlement
Management Revenue Authority
122 Wade Hampton Office Building
Capitol Complex
Columbia, South Carolina 29201

Governor's School for the Arts
Foundation, Inc.
700 East North Street
Suite 11
Greenville, South Carolina 29601

Medical University Hospital Authority
Fiscal Services Offices
Post Office Box 250603
Charleston, South Carolina 29425

The Citadel Trust
c/o The Citadel
171 Moultrie Street
Charleston, South Carolina 29409

University of South Carolina Trust
Post Office Box 413
Columbia, South Carolina 29202

University Medical Associates
1180 Sam Rittenberg Boulevard
Suite 355
Charleston, South Carolina 29407

Medical University Facilities Corporation
c/o Medical University of South Carolina
Controller's Office
19 Hagood Avenue
Post Office Box 250817
Charleston, South Carolina 29425

CHS Development Company
c/o Medical University of South Carolina
Controller's Office
19 Hagood Avenue
Post Office Box 250817
Charleston, South Carolina 29425

Pharmaceutical Education and Development
Foundation
c/o Health Sciences Foundation
18 Bee Street
Post Office Box 250450
Charleston, South Carolina 29425

Discretely Presented Component Units

Unless otherwise indicated below, the discretely presented component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2005.

Public Service Authority

The State General Assembly created the South Carolina Public Service Authority (Santee Cooper), a public utility company, in 1934. The Authority's primary purpose is to provide electric power and wholesale water to the people of South Carolina. The Governor appoints the Authority's Board of Directors. The Governor has the ability to remove the appointed members at will. By law, the Authority must annually transfer to the State's General Fund any net earnings not necessary for prudent business operations. The financial information presented in the accompanying financial statements is for the Authority's fiscal year ended December 31, 2004.

State Ports Authority

The State General Assembly created the South Carolina State Ports Authority in 1942 to develop and improve the State's harbors and seaports. The State Ports Authority owns and operates seven ocean terminals that handle import and export cargo. The Governor appoints the members of the Authority's governing board. The Governor has the ability to remove the appointed members at will. The State's primary government has provided financial support to the Authority in the past, and State law grants the primary government access to the Authority's surplus net revenues.

Connector 2000 Association, Inc.

Connector 2000 Association, Inc., was created in 1996 to assist the Department of Transportation in financing, acquiring, constructing, and operating turnpikes and other transportation projects, primarily the project known as the Southern Connector in Greenville County. The Department of Transportation initially set the toll rates for the Southern Connector and has the right, but not the obligation, to revise the rates. The rates must be in compliance with revenue covenants of the Association's financing agreements. The financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2004.

Lottery Commission

The South Carolina Lottery Commission commenced operations in July 2001 in accordance with an act of the General Assembly. The Commission, established to serve the State's citizens, is governed by a nine-member board with three members appointed by the Governor, three appointed by the President Pro Tempore of the Senate, and three appointed by the Speaker of the House of Representatives. State law requires that the Commission transfer its net proceeds to the State to support improvements and enhancements for educational purposes and programs.

Other Discretely Presented Component Units

The State considers the four discretely presented component units described above as its major component units. The State's government-wide financial statements also include the following non-major discretely presented component units:

The *Clemson Foundation (the Foundation)* is a non-profit, tax-exempt public charity that was established to raise and manage private gifts for the advancement and benefit of Clemson University. The Foundation is governed by an independent, forty-three member volunteer board of directors, with additional honorary and ex-officio directors as approved.

The *University of South Carolina Educational Foundation (the Foundation)* is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. The Foundation establishes and implements long-range fund raising programs to assist in the expansion and improvement of the educational functions of the University. The Foundation is governed by a self-perpetuating board of directors consisting of at least twenty-four members, including four ex-officio directors.

The *South Carolina Medical Malpractice Liability Joint Underwriting Association (the Association)* was established to provide medical malpractice insurance on a self-supporting basis. The Association is governed by a board of thirteen directors, all of whom are appointed by the Governor. The Governor has the ability to remove the appointed members at will. The financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2004.

The *South Carolina First Steps to School Readiness Board of Trustees* was established in 1999 as a non-profit, tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The corporation was created specifically to carry out the objectives of The South Carolina First Steps to School Readiness Act and to lessen the burdens on government by overseeing the South Carolina First Steps to School Readiness initiative for improving early childhood development. The corporation's governing board is composed of two classes of members, voting and nonvoting. The Board's voting members include the Governor, State Superintendent of Education, ten Governor appointees, four members appointed by the President Pro Tempore of the Senate, four members appointed by the Speaker of the House of Representatives, the Chairman of the Senate Education Committee, and the Chairman of the House Education and Public Works Committee.

State of South Carolina

The *Children's Trust Fund of South Carolina, Inc. (the Fund)*, is a non-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Fund's purpose is to stimulate innovative prevention and treatment programming to meet critical needs of South Carolina's children by awarding grants to private non-profit organizations. The Governor appoints the Board of Trustees' nine members. The Governor has the ability to remove the appointed members at will. The financial information presented in the accompanying financial statements is for the Fund's fiscal year ended December 31, 2004.

Obtaining More Information about Discretely Presented Component Units

One may obtain complete financial statements for the discretely presented component units from the following administrative offices:

South Carolina Public Service Authority
(Santee Cooper)
One Riverwood Drive
Post Office Box 2946101
Moncks Corner, South Carolina 29461

South Carolina State Ports Authority
Post Office Box 22287
Charleston, South Carolina 29413

Connector 2000 Association, Inc.
Post Office Box 408
Piedmont, South Carolina 29673

The South Carolina Lottery Commission
Post Office Box 11949
Columbia, South Carolina 29211

Clemson University Foundation
110 Daniel Drive
Clemson, South Carolina 29634

University of South Carolina Educational
Foundation
208 Osborne Building
University of South Carolina
Columbia, South Carolina 29208

The South Carolina Medical Malpractice
Liability Joint Underwriting Association
c/o Marsh USA
Post Office Box 128
Greenville, South Carolina 29161

The Children's Trust Fund
1205 Pendleton Street, Suite 506
Columbia, South Carolina 29201

Fund financial statements for The First Steps to School Readiness Board of Trustees are included in the Supplementary Information section of the State's Comprehensive Annual Financial Report. This entity does not issue separate financial statements.

Related Organizations

A related organization is one for which the primary government is accountable but not *financially accountable*. The South Carolina Reinsurance Facility, the Associated Auto Insurers Plan, regional housing authorities, and the Rural Crossroads Institute are related organizations because the State is not financially accountable for them despite the fact that the Governor appoints a voting majority of their governing boards. County boards of mental retardation and redevelopment authorities are related organizations if the Governor appoints a voting majority of the members.

Jointly Governed Organizations

The Governor, in conjunction with officials of certain local governments, appoints the board members of two military facility redevelopment authorities. The State does not have an ongoing financial interest in these authorities. The Governor appoints one out of seven board members of the Charleston Naval Complex Redevelopment Authority and three out of nine board members of the Myrtle Beach Air Force Base Redevelopment Authority.

During the 2001-2002 fiscal year, the State joined the Atlantic Low-Level Radioactive Waste Compact, a voluntary association of states that, by federal law, is legally separate from each of the party states. South Carolina does not have an ongoing financial interest in the Compact.

b. Basis of Presentation

Government-wide Financial Statements

The statement of net assets and the statement of activities report information about all activities of the primary government and its component units, except for fiduciary activities. These statements distinguish between the State's *governmental* and *business-type activities*. Taxes, federal revenues, and other nonexchange transactions primarily finance the governmental activities whereas fees charged to external parties finance, in whole or in part, the business-type activities. All of the State's governmental and internal service funds are reported in the government-wide financial statements as

governmental activities and all of its enterprise funds are reported as business-type activities. (See the *Fund Financial Statements* subsection below for more information about fund types.)

Statement of Activities and Eliminations

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the State and for each function of the State's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The State does not eliminate direct expenses and does not allocate indirect expenses to functions in the statement of activities. In the statement of activities, reimbursements under indirect cost plans for federal reimbursement purposes are reported as program revenues of the function that includes the reimbursed expenses.

Eliminations have been made to minimize the double-counting of internal activities. For example, the State eliminates payments the Department of Health and Human Services makes to the Department of Mental Health for providing Medicaid services because it reports both departments in its health and environment function. An exception to this general rule is that interfund services provided or used between functions have not been eliminated in the statement of activities because to do so would distort the net cost data for functional activities as reported in the total column of that statement. The State treats these internal payments as program revenues and treats interfund reimbursements in the statement of activities in the same manner as described below for fund financial statements. For example, when the Department of Health and Human Services purchases computer services from one of the State's higher education institutions, the health and environment governmental function reports an expense, and the higher education business-type activity reports program revenue (charges for services).

Program revenues include: (a) fees, fines, and charges paid by the recipients of goods, services, or privileges offered by the programs; (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and (c) investment earnings that are legally restricted for a specific program. The State classifies as *general revenues* all revenues that are not program revenues, including all taxes.

Major Component Units

The State's management designates the Public Service Authority, the State Ports Authority, the Connector 2000 Association, Inc., and the Lottery Commission as major component units. The nonmajor component units include aggregate totals of all remaining discretely presented component units. In determining which discretely presented component units to designate as major, the State considered each component unit's significance relative to the other discretely presented component units and the nature and significance of its relationship to the primary government.

Fund Financial Statements

The fund financial statements provide information about the State's funds, including its fiduciary funds and blended component units. The State presents separate statements for each fund category—governmental, proprietary, and fiduciary. The emphasis of fund financial statements is on major governmental and enterprise funds, with each displayed in a separate column. The State aggregates and reports as nonmajor funds all remaining governmental and enterprise funds.

The State eliminates material intrafund activity. It also treats interfund reimbursements (repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them) as reductions of expenditure/expense in the initial fund. For example, during the fiscal year ended June 30, 2005, the Department of Motor Vehicles (reported within the general government function) used office supplies and postage provided by the Department of Public Safety (reported within the administration of justice function). The Department of Public Safety initially recorded expenditures for the office supplies and postage in the General Fund. The Department of Motor Vehicles later reimbursed the Department of Public Safety with special revenue monies. That is, the Department of Motor Vehicles recorded special revenue fund expenditures while the Department of Public Safety reduced its General Fund expenditures by the same amount.

Governmental Funds

Governmental funds focus primarily on the sources, uses, and balances of current financial resources. The governmental fund category includes the General Fund, special revenue funds, the Capital Projects Fund, and permanent funds. The State reports the following major governmental funds:

The *General Fund* is the State's general operating fund. It accounts for resources that fund the services South Carolina's State government traditionally has provided to its citizens, except those required to be accounted for in another fund.

The *Departmental General Operating Fund* accounts for resources, other than General Fund resources, that State agencies may use for operating purposes. These resources include significant amounts of federal grant receipts.

The *Local Governmental Infrastructure Fund* accounts for grants, loans, and other financial assistance to local governments for infrastructure purposes. Certain motor fuel taxes, federal funds, and transfers from other funds are the fund's primary resources. This fund includes operations of the South Carolina Transportation Infrastructure Bank.

The *Department of Transportation Special Revenue Fund* accounts for the various gasoline taxes, fees, fines, and federal grant resources that the Department of Transportation uses in its general operations. Those operations include highway maintenance and repair as well as most of the Department's administrative activities.

The *State Tobacco Settlement Fund* accounts for revenues received from the General Fund and from the Tobacco Settlement Revenue Management Authority, a blended component unit and nonmajor governmental fund designated to receive and manage South Carolina's share of the multi-state legal settlement with the tobacco industry. Various healthcare and local government programs use these funds and the related interest.

The State aggregates other nonmajor governmental funds in a single column in its fund financial statements.

Enterprise Funds

Enterprise funds (which are reported as business-type activities in the government-wide financial statements) report activities that charge fees to external users for goods or services. The State reports the following major enterprise funds:

The *Higher Education Fund* accounts for the general operations of ten four-year higher education institutions and sixteen area technical colleges, all of which are part of the State's primary government.

The *Unemployment Compensation Fund* accounts for the State's unemployment compensation benefits. Revenues consist of assessments on employers to pay benefits to qualified unemployed persons.

The *Housing Authority Fund* facilitates medium-income and low-income housing opportunities by providing reasonable financing to the State's citizens. To provide such financing, the Fund issues bonds and notes and administers federal grants and contracts. Mortgage interest is a primary resource for the Fund.

The *Medical University Hospital Authority* manages and operates the Medical University of South Carolina's hospitals and clinics. Revenues consist of payments from patients and third-party payors including Medicare and Medicaid.

The *Education Assistance Authority Fund* issues bonds to make loans to individuals to enable students to attend higher education institutions. Resources include interest charges, subsidies from the United States Department of Education, loan repayments, and investment earnings.

The State aggregates other nonmajor enterprise funds in a single column in its fund financial statements.

Other Fund Types

The State reports the following fund types in addition to governmental and enterprise funds:

Internal service funds account for various goods and services provided to other State departments or agencies (primarily to governmental funds), or to other governments, on a cost-reimbursement basis. Services provided by these funds include several risk management activities for which the State is the primary participant, including underwriting related to the following risks: public buildings and their contents, torts, medical malpractice, automobile use by public employees in the performance of their official duties, employee health and disability, and workers' compensation benefits. Other services include those relating to telecommunications, computer operations, office rental, janitorial, building maintenance, lease and repair of fleet vehicles, procurement, employee training, and management of public employee retirement systems. The internal service funds also sell goods produced with prison inmate labor. In addition, the internal service funds purchase selected supplies and equipment in bulk and sell these items to other State funds (primarily governmental funds) and to local governmental units. The State's internal service funds are considered to be governmental activities because they primarily serve governmental funds.

Pension trust funds account for the pension benefits of the South Carolina Retirement System, the Police Officers' Retirement System, the General Assembly Retirement System, the Judges' and Solicitors' Retirement System, and the National Guard Pension System.

The State's *investment trust fund* accounts for a local government investment pool that the State Treasurer operates.

Private-purpose trust funds include a tuition savings plan benefiting college students. Another private-purpose trust fund sets aside assets for site stabilization and closure of a nuclear waste site operated by a private company within the State's borders in the event that the company ceases operations or loses its license to operate. The private-purpose trust funds also include miscellaneous other trust agreements holding assets that benefit non-State parties.

Agency funds account for assets that the State holds as an agent. These assets include deposits of insurance companies in lieu of surety bonds; employee and employer payroll deductions and contributions for the short period of time between the issuance of payroll checks and payment to the recipients; and various other assets held for prisoners, patients of State institutions, and other external parties.

Operating and Nonoperating Revenues and Expenses in Proprietary Fund Financial Statements

Enterprise and internal service funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally are limited to items resulting from the provision of services and goods in connection with the fund's principal ongoing operations. The State generally classifies revenues and expenses as operating only if the related cash flows appear in the operating section on the statement of cash flows. Accordingly, grants and grant-like transactions are reportable as operating revenues only if they are essentially the same as contracts for services (i.e., exchange transactions) and they finance programs that the proprietary fund would not otherwise undertake (i.e., the

activity of the grant is inherently part of the operations of the grantor). Conversely, the State classifies nonexchange transactions as nonoperating. This includes all grant revenues except those reportable as operating revenue as described above and those restricted by the grantor for use exclusively for capital purposes. The State reports as operating most expenses it pays from operating revenues but usually reports interest expense as nonoperating.

In accordance with the general policy stated in the preceding paragraph, the *Higher Education Fund's* principal operating revenues include tuition; student fees; student loans; scholarships and grants (including Pell grants) where the provider has identified the student recipients; sales of miscellaneous goods and services; and certain research grants that, in substance, are contracts for services rather than nonexchange revenues. However, the Higher Education Fund generally does not report as revenue third-party loan amounts that it receives and disburses. (In a third-party loan, a student or a student's parents secure(s) a student loan from a governmental fund or from another lender such as the federal government; the Higher Education Fund then receives funds from the lender and disburses the funds to the student or applies amounts to the student's account.)

For the *Unemployment Compensation Fund*, principal operating revenues include amounts received from covered employers and from federal agencies. The amounts received from federal agencies are classified as operating revenues because they are provided to the State primarily to provide unemployment benefits, although amounts not needed for that purpose may be used for other purposes. This fund's operating expenses consist primarily of unemployment compensation benefits paid. Interest income is classified as nonoperating revenue.

For the *Housing Authority Fund* and the *Education Assistance Authority Fund*, principal operating items include revenues and expenses associated with program loans that provide direct benefits to individuals.

For the *Medical University Hospital Authority*, principal operating items include revenues and expenses associated with managing and operating the Medical University of South Carolina's hospitals and clinics.

The principal ongoing operation of *The Citadel Trust, Inc.*, a nonmajor enterprise fund, is investing. Accordingly, the State reports its investment-related transactions as operating rather than nonoperating.

Component Unit Financial Statements

The State presents a statement of net assets and a statement of activities for each of its major discretely presented component units and for the aggregate of its nonmajor discretely presented component units.

Use of Private-Sector Accounting and Financial Reporting Principles

The government-wide and proprietary fund financial statements reflect the State's compliance with private-sector standards of accounting and financial reporting issued prior to November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also may opt to follow private-sector guidance issued after November 30, 1989, for their business-type activities (enterprise funds) and for their discretely presented component units that follow enterprise fund accounting, subject to the same limitation. Only the Public Service Authority and the State Ports Authority, major discretely presented component units, have selected this option.

c. Measurement Focus and Basis of Accounting

A particular measurement focus determines *what* resources are measured. The State reports its government-wide, proprietary, and fiduciary fund (other than agency fund) financial statements using the *economic resources* measurement focus. Agency funds report only assets and liabilities; and therefore cannot be said to have a measurement focus. Business enterprises also use the economic resources measurement focus. The State reports its governmental funds using the *current financial resources* measurement focus.

The basis of accounting determines *when* the State recognizes revenues and expenditures/expenses as well as the related assets and liabilities, regardless of measurement focus. Generally accepted accounting principles for governments require the use of the accrual and the modified accrual bases of accounting as described below.

Accrual Basis

The State uses the accrual basis of accounting in reporting its government-wide financial statements, as well as its proprietary and fiduciary fund financial statements and its major component unit financial statements. Under the accrual basis, the State generally records revenues when earned and reasonably measurable and records expenses when a liability is incurred, regardless of the timing of related cash flows.

Significant nonexchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, and donations. On the accrual basis, the State recognizes income, sales, and similar taxes in the period when the underlying income or sales transactions occur. The State recognizes grants, donations, and similar items as revenue as soon as it meets all eligibility requirements. Pledges are recognized as receivables and revenues, net of estimated uncollectible amounts, if all eligibility requirements are met, the promise is verifiable, and the

resources are measurable and probable of collection. Note 17b provides additional details regarding pledges that were not measurable at June 30, 2005.

Modified Accrual Basis

The State uses the modified accrual basis of accounting to report its governmental funds. Under the modified accrual basis, revenues, net of estimated uncollectible amounts, are recognized in the fiscal year when they become susceptible to accrual—that is, as soon as they become both measurable and available to finance current operations or to liquidate liabilities existing at fiscal year-end. Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available at year-end. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Principal revenue sources considered susceptible to accrual include taxes, grants, charges for goods and services, and interest earnings. The State uses different availability periods for recognizing these revenues. Grant revenues are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Significant tax revenues susceptible to accrual include income and sales taxes, and are recognized in the period in which the underlying taxable exchange transaction occurs, net of estimated refunds. Income and sales tax receivables are recognized as revenues to the extent they are available to liquidate related liabilities that exist at June 30. Revenues generated from the sales of goods and services are recognized if received within one month after fiscal year-end. Interest on investments is recorded as earned because it is deemed available when earned. All other revenues are considered to be available only when the State receives the related cash.

Under the modified accrual basis, expenditures generally are recorded when a liability is incurred, as under accrual accounting. An exception, however, is that principal and interest on general long-term debt, claims and judgments, and compensated absences, are recognized as expenditures only to the extent they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures (rather than as assets) in governmental funds.

Recognition of Specific Grant and Shared Revenue Transactions

The State reports the receipt of food commodities as revenue and the distribution of commodities as expenditures/expenses. The fair value of the donated commodities is recognized as revenues when all eligibility requirements are met.

The State recognizes the face value of food stamp benefits distributed as revenue and expenditures/expenses under both the accrual and modified accrual bases of accounting.

The State shares certain of its revenues with municipalities, counties, and districts within its borders, recognizing expenditure or expense when the recipient government has met all eligibility requirements.

d. Cash and Cash Equivalents

The amounts shown in the accompanying financial statements as *cash and cash equivalents* represent petty cash, cash on deposit in banks, restricted cash and cash equivalents on deposit with external parties, and cash invested in various instruments as a part of the State's cash management pool, an internal investment pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements.

Most entities in the primary government and the discretely presented governmental component units participate in the cash management pool. Significant exceptions, however, are: retirement plans, the Local Government Investment Pool (an external investment pool), the Tobacco Settlement Revenue Management Authority (a blended component unit and a nonmajor governmental fund), the Housing Authority (a major enterprise fund), and certain activities of the Higher Education Fund (a major enterprise fund). Of the discretely presented component units, the State Ports Authority, the Lottery Commission, and the First Steps to School Readiness Board of Trustees participate in the pool. For activities excluded from the pool, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

e. Cash Management Pool—Allocation of Interest

The State's cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account. All earnings on that account, however, are recorded in the General Fund. In contrast, each special deposit account retains its own earnings.

f. Investments

The State Treasurer is authorized by statute to invest all State funds. The State Treasurer's investment objectives are preservation of capital, maintenance of adequate liquidity, and obtaining the best yield possible within prescribed parameters. To meet those objectives, the State Treasurer uses various resources including an investment advisory service, electronic financial quotation and information services, various economic reports, and daily communication with brokers and financial institution investment officers.

To insure safety of principal, the State Treasurer's policy is to limit liquid investments (i.e., those with maturities not exceeding one year) to cash, repurchase agreements (when collateralized by United States Treasury, federal agency or other federally guaranteed obligations with a market value in excess of 100.0% of funds advanced), United States Treasury bills, federal agency discount notes, and commercial paper. The State Treasurer further preserves principal by investing in only the highest investment grade securities (i.e., those rated at least A by two leading national rating services). In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers.

Certain agencies and component units have specific authority to manage deposits and investments under their control. The investment policies of these entities may differ from those of the State Treasurer.

Under State law, the State Retirement Systems Investment Panel (the Panel) may invest up to 40.0% of the Systems' investment portfolio in equity securities. Each member of the State Budget and Control Board appoints one member of the five-member Panel. The Panel's objective is to optimize the long-term performance of equity investments consistent with a prudent level of portfolio risk, considering the liabilities and liquidity needs of the pension trust funds.

Substantially all of the State's investments are presented at fair value; securities are valued at the last reported sales price as provided by an independent pricing service. In contrast, however, the State has presented at historical cost the investment securities and other instruments that the Chief Insurance Commissioner holds for insurance companies in lieu of surety bonds. These securities are separately classified in the accompanying financial statements as *securities held in lieu of surety bonds*. These instruments are recorded in the State's agency funds and are not held for investment purposes.

Pursuant to State law, the primary government and its discrete component units do not maintain deposits or make investments in foreign currencies.

The State sponsors the Local Government Investment Pool (LGIP), an external investment pool reported as an investment trust fund. The LGIP's complete financial statements may be obtained by writing to the following address:

The State Treasurer's Office
Local Government Investment Pool
Post Office Box 11778
Columbia, South Carolina 29211

g. Receivables and Payables

The State records amounts receivable from parties outside the primary government net of allowances for uncollectible amounts and contractual adjustments. It estimates uncollectible amounts based on past collection experience. The State discloses the gross amounts of these receivables and the amounts of related allowances and adjustments, as well as any significant receivable balances not expected to be collected within one year, in Note 5. Further, the State disaggregates its receivable balances in Note 5 if any significant components thereof have been obscured in the financial statements by aggregation or if different components of receivables have significantly different liquidity characteristics.

The State presents balances outstanding at the end of the fiscal year that relate to lending/borrowing arrangements between funds as interfund receivables and payables and reports all other outstanding balances between funds as due to/from other funds. The government-wide statement of net assets displays internal balances that involve fiduciary funds as accounts receivable and accounts payable. The State reports as internal balances any residual balances outstanding between the governmental and business-type activities in the government-wide financial statements.

h. Inventories

The State values its inventories at cost, predominantly using the first-in, first-out methodology for its proprietary funds and its business-type activities and predominantly using the average cost methodology for its other funds and activities and its discretely presented component units. The State records expenditures in governmental funds when it consumes inventory items rather than when it purchases them.

i. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. The State records these payments as prepaid items in both the government-wide and fund financial statements.

j. Capital Assets

The State reports its capital assets in the following categories in the applicable governmental or business-type activities in the government-wide financial statements: land and land improvements, infrastructure (i.e., highways and bridges), buildings and improvements, construction in progress, vehicles, machinery and equipment, works of art and historical treasures, and intangible assets.

Capital assets are valued at historical cost or at estimated historical cost if actual historical cost data are not available. Donated capital assets are recorded at estimated fair market value on the donation date. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend an asset's useful life are not capitalized. Cumulative costs incurred on major capital assets under construction but not yet placed in service are capitalized and reported in the construction in progress account. Net interest incurred by a proprietary fund during the construction phase of a major capital asset is included as part of the capitalized value of such asset.

An individual asset is capitalized and reported if it has an estimated useful life of at least two years and a historical cost as follows: more than \$5 thousand for vehicles, machinery and equipment, and works of art and historical treasures; more than \$100 thousand for buildings and improvements, depreciable land improvements, and intangible assets; and more than \$500 thousand for roads and bridges. All land and non-depreciable land improvements are capitalized and reported, regardless of cost. Certain State agencies also capitalize those assets with a useful life between one and two years that meet the preceding dollar thresholds, and the Lottery Commission, a major discretely presented component unit, capitalizes all property and equipment purchases of \$1 thousand or more.

Once the State or one of its discretely presented component units places a depreciable capital asset in service, depreciation is recorded using the straight-line method over the following estimated useful lives:

Asset Category	Years
Land improvements.....	3 - 60
Infrastructure—highways.....	75
Infrastructure—bridges.....	50
Buildings and improvements.....	5 - 55
Vehicles.....	3 - 20
Machinery and equipment.....	2 - 25
Works of art; historical treasures.....	10 - 25
Intangible assets.....	3 - 38

In addition, certain capitalized works of art and historical treasures are not depreciated because they are considered to be inexhaustible.

The State does not capitalize certain collections of works of art and historical treasures that are held for public use, are protected and preserved, and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. These non-capitalized collections include portraits of political leaders, historical relics, antiques, fossils, and other South Carolina artifacts.

The State reports losses on disposals of capital assets as expenses of its General Government function and gains on such disposals as general revenues in the government-wide statement of activities.

The State reports the Southern Connector toll road as a capital asset of the Connector 2000 Association, Inc., the major discretely presented component unit that financed, constructed, and is responsible for maintaining and operating the toll road. Under an agreement between the Association and the State Department of Transportation (DOT), the DOT retains fee simple title to the road.

k. Deferred Charges

Deferred costs to be recovered from future revenues of the South Carolina Public Service Authority (a regulated utility reported as a major discretely presented component unit) are recorded as deferred charges. The Authority's rates are based upon debt service and operating fund requirements. The Authority recognizes differences between debt principal maturities and straight-line depreciation as costs to be recovered from future revenue. The recovery of outstanding amounts recorded as costs to be recovered from future revenue will coincide with the repayment of the outstanding long-term debt of the Authority.

The South Carolina Medical Malpractice Liability Joint Underwriting Association, a non-major discretely presented component unit, defers certain policy acquisition costs for new and renewal business. The Association amortizes these costs based on the related written and unearned premiums.

Unamortized bond issuance costs are reported as deferred charges and are amortized as described in Note 1m.

I. Tax Refunds Payable

Most of the tax refunds payable balance in the General Fund relates to individual income tax. During the calendar year, the State collects employee withholdings and taxpayers' payments. Taxpayers file returns by April 15 for the preceding calendar year. At June 30, the State estimates the amount it owes taxpayers for overpayments during the preceding six months. The State records this estimated payable as tax refunds payable and a reduction of tax revenues.

m. Long-Term Obligations

The State records general long-term debt and other long-term obligations of the primary government's governmental funds in the governmental activities reported in its government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are recorded as liabilities in the appropriate funds.

The State defers and amortizes bond premiums and discounts, as well as issuance costs, over the life of the bonds predominantly using the effective interest method. For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is also deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt. The State reports bonds payable net of the applicable bond premium or discount and deferred amount on refunding. Unamortized issuance costs are reported as deferred charges.

n. Compensated Absences

During their first ten years of service, most full-time permanent State employees annually earn 15 days of vacation leave and 15 days of sick leave. After ten years, most employees earn an additional 1.25 days of vacation leave for each year of service over ten until they reach the maximum of 30 days per year. Employees may carry forward up to 45 days of vacation leave and 180 days of sick leave from one calendar year to the next. Upon termination of employment, the State pays employees for accumulated vacation leave at the pay rate then in effect. Employees do not receive pay for accumulated sick leave when they terminate. However, at retirement, employees participating in the South Carolina Retirement System and the South Carolina Police Officers' Retirement System may receive additional service credit for up to 90 days of accumulated unused sick leave.

The government-wide and proprietary fund statements record an expense and a liability when employees earn compensated absence credits. Governmental fund financial statements record a liability for compensated absences payable at June 30, only if the liability has matured but has not yet been paid at that date (for example, as a result of employee resignations and retirements). The State does not record a liability for unpaid accumulated sick leave.

o. Perkins Loan Liability

The Higher Education Fund, a major enterprise fund, records a liability related to the Perkins student loan program and certain other federal student loan programs to reflect the amount of capital contributions received to date from the federal government plus any other amounts that ultimately are refundable to the federal government under the programs. The State has recorded this liability as part of its other liabilities account.

p. Restricted Net Assets

The State reports a portion of its net assets in its government-wide financial statements as restricted. In this context, *restricted* means that, as of June 30, 2005, this portion of net assets was restricted for a particular purpose either by external parties, by provisions of the State Constitution, or by enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the General Assembly. If the General Assembly subsequently removes restrictions from amounts reported as restricted net assets at June 30, 2005, the State reclassifies such amounts as *unrestricted* net assets when the change becomes effective.

q. Flow Assumption, Net Assets

The State's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

r. Escheat Property

The State accounts for its escheat property in the General Fund, the fund to which the property ultimately escheats. To the extent it is probable that such property will be reclaimed and paid to claimants, the State records a liability and reduces revenue in the General Fund.

NOTE 2: ACCOUNTING AND REPORTING CHANGES

a. Change in Reporting Entity: Major Enterprise Funds

The State previously reported the Medical University Hospital Authority as a non-major enterprise fund in accordance with the criteria established in the Governmental Accounting Standards Board's Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. During the fiscal year ended June 30, 2005, the Authority issued \$483.060 million in revenue bonds. Because of this significant increase in liabilities and a related increase in restricted assets, the Authority meets the criteria of Statement 34 for reporting as a major enterprise fund at June 30, 2005. As a result, \$180.164 million has been reclassified from non-major enterprise funds to a major enterprise fund.

b. Changes in Revenue Recognition

The State changed its availability period for recognizing certain revenues in its governmental funds. Effective July 1, 2004, the availability period for revenues derived from the sale of goods or services was changed from one year to one month after June 30. Also effective July 1, 2004, the basis of accounting for recognizing revenues from licenses, fees, fines, and penalties was changed from the modified accrual to the cash basis of accounting. These revenues are now reported in the fiscal year of cash collection. The State's financial managers believe that these changes provide a more appropriate approach for recognizing revenues available to pay for expenditures incurred during the current fiscal year in its governmental funds.

c. Correction of Error: Revenue Recognition for Food Commodities

In prior years, the State did not recognize revenues for the receipt of food commodities or expenditures for the distribution of those commodities in the governmental fund statements. These transactions were reported only in the government-wide Statement of Activities. Effective July 1, 2004, the State now recognizes the revenues and expenditures relating to food commodities programs in both the governmental fund statements and the government-wide statements in accordance with Governmental Accounting Standards Board's Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

d. Correction of Error: Department of Transportation Special Revenue Fund

During the fiscal year ended June 30, 2005, the Department of Transportation made corrections regarding the recognition of revenue due from the Federal highway administration. The Department paid \$123.963 million in the prior years that will be reimbursed by the Federal highway administration. While this entire amount is reported as an increase to beginning net assets for governmental activities in the government-wide statements, a portion of this adjustment is classified as deferred revenue in the Department of Transportation Special Revenue Fund, a major fund in the governmental fund statements, as it was not available to meet the current needs of the Department at either June 30, 2004 or June 30, 2005.

e. Effects of Accounting and Reporting Changes on Beginning Fund Equity and Beginning Net Assets

The schedules below, expressed in thousands, detail changes made to beginning net assets and beginning fund equity to give effect to the accounting and reporting changes discussed in this note.

Fund Equity or Net Assets Category	Net Assets at June 30, 2004			
	As Previously Reported	Changes In Revenue Recognition	Correction of Error for Department of Transportation	As Restated
Primary Government				
Governmental Activities.....	\$ 10,019,015	\$ 10,920	\$ 123,963	\$ 10,153,898

Fund Equity at June 30, 2004

Fund Equity Category	As Previously Reported	Change in Reporting Entity	Changes In Revenue Recognition	Correction of Error for Department of Transportation	Correction of Error for Food Commodities	As Restated
<i>Governmental Funds</i>						
General Fund.....	\$ (7,027)	\$ —	\$ 15,986	\$ —	\$ —	\$ 8,959
Departmental General Operating Fund.....	354,725	—	(16,338)	—	265	338,652
Department of Transportation Special Revenue Fund.....	(109,599)	—	—	62,500	—	(47,099)
Nonmajor Governmental Funds.....	887,261	—	(3,386)	—	—	883,875
<i>Proprietary Funds</i>						
Medical University Hospital Authority.....	—	180,164	—	—	—	180,164
Nonmajor Enterprise Funds.....	106,082	(180,164)	—	—	—	(74,082)
<i>Fiduciary Funds</i>						
Private-Purpose Trust Funds.....	353,960	—	(30)	—	—	353,930
Totals.....	<u>\$ 1,585,402</u>	<u>\$ —</u>	<u>\$ (3,768)</u>	<u>\$ 62,500</u>	<u>\$ 265</u>	<u>\$ 1,644,399</u>

NOTE 3: DEFICITS OF INDIVIDUAL FUNDS AND NEGATIVE UNRESTRICTED NET ASSETS

a. Deficits of Individual Funds

The accompanying fund financial statements display deficit fund balances and deficit net asset balances for individual major funds, if applicable. Other funds had the following deficit net asset balances (expressed in thousands) at June 30, 2005:

Nonmajor Enterprise Funds:	
Patients' Compensation.....	\$ 214,413
Tuition Prepayment Program.....	35,609
CHS Development Company.....	260
Pharmaceutical Education and Development Foundation (PEDF) of the Medical University of South Carolina.....	8,017
Internal Service Funds:	
State Accident Fund.....	112,955
Pension Administration.....	822

b. Negative Unrestricted Net Assets

The government-wide statement of net assets displays a \$172.175 million deficit unrestricted net assets balance for governmental activities. This deficit is due, in large part, to bonds that the State has issued to finance projects of other governments or to finance its own non-capital repairs and maintenance projects.

The State disburses the proceeds of its general obligation school facilities bonds to local school districts. These districts capitalize and report in their own financial statements the school facilities that they construct with these proceeds. Therefore, the State reports these bonds but not the capital assets in unrestricted net assets.

The State disburses some of the proceeds of its general obligation capital improvement bonds and its general obligation State economic development bonds to local governments and private entities for construction and redevelopment projects. In addition, the State uses some capital improvement bond proceeds for State repairs and maintenance projects. Accordingly, the State reports in unrestricted net assets the portions of capital improvement bonds payable and State economic improvement bonds payable that are associated with these local government, private entity, and non-capital projects.

The amount of the unrestricted net assets deficit attributable to debt issued for non-capitalized purposes is as follows (expressed in thousands):

State school facilities bonds.....	\$ 611,126
Capital improvement bonds, non-capital purposes.....	128,686
State economic development bonds, non-capital purposes.....	4,096
Total	<u>\$ 743,908</u>

A portion of the deficit unrestricted net assets balance is due to bonds issued by the Tobacco Settlement Revenue Management Authority Fund, a blended component unit accounted for as a non-major governmental fund. The Authority transferred a portion of the bond proceeds to the State Tobacco Settlement Fund, a major governmental fund. The bonds will be retired using future tobacco settlement revenues. The net assets balances of the State Tobacco Settlement Fund and the Tobacco Settlement Revenue Management Authority Fund produce a net deficit of \$185.595 million in governmental activities.

NOTE 4: DEPOSITS AND INVESTMENTS

By law, all deposits and investments are under the control of the State Treasurer except for those that, by specific authority, are under the control of other agencies or component units.

a. Deposits

The following deposits disclosure excludes the primary government's Pension Trust Funds of the South Carolina Retirement Systems which are described in subsection d below.

Policy

The State's policy by law, requires all banks or savings and loan associations that receive State funds deposited by the State Treasurer, to secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss. Note 1, subsections d and e explain other policies concerning deposits.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure, the State will not be able to recover collateral securities that are in the possession of an outside party. Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. All deposits under the control of the State Treasurer are fully insured or collateralized. As of June 30, 2005, the reported amount of the primary government's deposits was \$256.093 million and the bank balance was \$602.924 million. Of the \$246.974 million bank balance exposed to custodial credit risk, \$120.499 million was uninsured and uncollateralized, \$122.076 million was uninsured and collateralized with securities held by the counterparty's trust department or agent in the State's name, and \$4.399 million was uninsured and collateralized with securities held by the counterparty's trust department or agent but not in the State's name.

As of June 30, 2005, the reported amount of the major discrete component units' deposits was \$11.278 million and the bank balance was \$28.816 million. Of the \$9.758 million bank balance exposed to custodial credit risk, \$6.430 million was uninsured and uncollateralized; and \$3.328 million was uninsured and collateralized with securities held by the counterparty's trust department or agent in a State entity's name.

b. Investments

The following investments disclosure excludes the primary government's Pension Trust Funds of the South Carolina Retirement Systems which are described in subsection d below.

Investment Policy

The State's investment policy by law authorizes investments that vary by fund, but generally include obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper. Substantially all of the State's investments are presented at fair value. Securities are valued at the last reported sales price as provided by an independent pricing service. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest income earned. Other investment policies for the State and its component units are explained in Note 1, subsection f.

Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of investments or collateral securities that are in possession of an outside party. The primary government's investments that are exposed to custodial credit risk have been classified into two categories of custodial credit risk. Category A includes investment securities that are uninsured, not registered in the name of the State, and are held by a counterparty. Category B includes investment securities that are uninsured, not registered in the name of

the State, and are held by a counterparty's trust department or agent but not in a State entity's name. The portion of the State's investments with custodial credit risk is classified by risk category (expressed in thousands) at June 30, 2005, as follows:

Primary Government Investment Type	Category		Reported Amount
	A	B	
U.S. Treasuries.....	\$ 25,354	\$ 19,620	\$ 44,974
U.S. agencies.....	24,000	1,791	25,791
Corporate bonds.....	—	3,648	3,648
Municipal bonds.....	—	36,774	36,774
Equity securities.....	4,881	46,375	51,256
Repurchase agreements.....	38,109	6,818	44,927
Asset backed securities.....	1,500	—	1,500
Totals.....	\$ 93,844	\$ 115,026	\$ 208,870

Major Discrete Component Units Investment Type	Category		Reported Amount
	A	B	
U.S. government treasuries.....	\$ 719	\$ —	\$ 208,142
U.S. government agencies.....	—	6,091	544,918
Repurchase agreements.....	17,293	—	124,722
Totals.....	\$ 18,012	\$ 6,091	\$ 877,782

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the State. The State's credit risk policy to mitigate the potential for loss of principal is to purchase only high investment grade fixed-income securities. In the event that the rating of a security falls below investment grade, that security may be held contingent upon an evaluation of the longer term investment merits of the security. Credit quality of cash reserves must carry a rating of A1/P1/F1 or D1 from at least two nationally recognized rating services. The majority of the debt investments for the primary government were rated as of June 30, 2005, and are listed below using the Standard and Poor's rating scale (dollars expressed in thousands):

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	CCC and Below	A-1	Not Rated
Corporate bonds.....	\$ 77,368	\$ 109,580	\$ 438,220	\$ 82,838	\$ 33,804	\$ 713	\$ 391	\$ —	\$ 141,975
Municipal bonds.....	—	—	—	7,079	—	—	—	—	67,219
Repurchase agreements.....	—	—	—	—	—	—	—	1,802,444	156,656
Asset backed securities.....	947,823	—	30,540	—	—	—	—	—	15,392
Commercial paper.....	—	—	—	—	—	—	—	702,819	—
Mutual funds.....	2,747	78	14	—	—	—	15	—	524,908
Non U.S. fixed income - developed corporate markets.....	—	—	35,070	—	—	—	—	—	—
Corporate private placements.....	4,932	6,032	14,258	19,398	—	—	—	—	1,784
Guaranteed investment contracts.....	—	—	—	—	—	—	—	—	271,425
Totals.....	\$ 1,032,870	\$ 115,690	\$ 518,102	\$ 109,315	\$ 33,804	\$ 713	\$ 406	\$ 2,505,263	\$ 1,179,359

The investments of the State Tobacco Settlement fund, a major governmental fund, are composed of \$457.045 million in municipal bonds with Standard & Poors ratings of AAA to A.

At June 30, 2005, the Public Service Authority, the State Ports Authority, and the Connector 2000 Association, Inc., all major discretely presented component units, held investments in U.S. government securities which do not require disclosure of credit quality. In addition to U.S. government securities, the State Ports Authority held investments in mutual funds rated "AAAm", "AAm", "AamG", or better, by a nationally recognized rating agency.

State of South Carolina

Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The State Treasurer and certain State agencies manage this risk by investing in securities with a range of maturities. At June 30, 2005, the State's primary government had the following investments and maturities (dollars expressed in thousands) disclosed by investment category and stated with fair value:

Investment Type	Fair Value	Investment Maturities (in years)				No Maturity
		Less than 1	1 - 5	6 - 10	More than 10	
U.S. Treasuries.....	\$ 1,203,405	\$ 764,280	\$ 318,976	\$ 37,214	\$ 82,935	\$ —
U.S. agencies.....	681,580	543,039	132,526	448	5,567	—
Mortgage backed securities.....	166,960	—	48,391	—	118,569	—
Collateralized mortgage obligations.....	302,007	—	—	10,077	291,930	—
Corporate bonds.....	884,889	444,799	370,146	37,167	32,777	—
Municipal bonds.....	531,343	—	—	—	464,125	67,218
Equity securities.....	46,383	—	—	—	—	46,383
Repurchase agreements.....	1,959,100	1,880,137	40,854	—	—	38,109
Asset backed securities.....	993,755	105,251	870,208	16,796	1,500	—
Commercial paper.....	702,819	702,819	—	—	—	—
Mutual funds.....	527,762	705	—	—	—	527,057
Non U.S. fixed income - developed corporate markets.....	35,070	—	35,070	—	—	—
Corporate private placements.....	46,404	—	15,290	22,614	8,500	—
Guaranteed investment contracts.....	271,425	40,257	13,679	—	—	217,489
Totals.....	\$ 8,352,902	\$ 4,481,287	\$ 1,845,140	\$ 124,316	\$ 1,005,903	\$ 896,256

At June 30, 2005, the State's major discretely presented component units had the following investments and maturities (dollars expressed in thousands) disclosed by investment category and stated with fair value:

Investment Type	Fair Value	Investment Maturities (in years)		No Maturity
		Less than 1	1 - 5	
U.S. Treasuries.....	\$ 208,142	\$ 207,423	\$ 719	—
U.S. agencies.....	544,918	276,861	268,057	—
Repurchase agreement.....	124,722	107,429	17,293	—
Mutual funds.....	791	—	—	791
Totals.....	\$ 878,573	\$ 591,713	\$ 286,069	\$ 791

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. The State's policy for reducing the risk is to diversify and limit exposure to any single issuer to no more than 5%, except for United States Treasury and agency obligations. As of June 30, 2005, the State had no investment in any single organization that represented 5% or more of the State's investments.

c. Securities Lending Program

The following securities lending disclosures exclude the primary government's Pension Trust Funds of the South Carolina Retirement Systems which are described in subsection d below.

By law, the State's primary government may lend securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions, with a simultaneous agreement to return the collateral for the same securities in the future. The State may lend United States government securities, corporate bonds, other securities and equities for collateral in the form of cash or other securities. The contracts with the State's custodians require them to indemnify the State if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the State for income distributions by the securities' issuers while the securities are on loan.

The weighted average maturity of the State's collateral investments generally matched the maturity of the securities loans during the fiscal year and at June 30, 2005. At June 30, 2005, the State had no credit risk exposure to borrowers because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. Either the State or the borrower can terminate all securities loans on demand. There are no restrictions on the amount of the loans that can be made. For the fiscal year ended June 30, 2005, the State experienced no losses on its securities lending transactions because of borrower defaults.

The State receives primarily cash as collateral for its loaned securities. A small portion of the collateral received by the State at June 30, 2005, was in the form of securities. The market value of the required collateral must meet or exceed 102.0% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral. During the fiscal year ended June 30, 2005, the State met the 102.0% requirement. The State cannot pledge or sell collateral securities unless the borrower defaults. The lending agent, on behalf of the State, invests cash collateral received. Accordingly, at June 30, 2005, the State recorded these investments of cash collateral as assets in the accompanying financial statements. Corresponding liability amounts also have been recorded because the State must return the cash collateral to the borrower upon expiration of the loan. The following table presents the fair value (expressed in thousands) of the underlying securities and the total collateral received for securities on loan at June 30, 2005.

Primary Government	Amount
Securities lent for cash collateral:	
U.S. Treasuries.....	\$ 1,208,978
U.S. agencies.....	4,353
Corporate bonds.....	63,010
Total for cash collateral.....	\$ 1,276,341
Cash collateral invested:	
Repurchase agreements.....	\$ 201,896
Corporate bonds.....	928,804
Asset backed securities.....	129,427
Bank obligations.....	51,501
Total for cash collateral invested.....	1,311,628
Securities received as collateral:	
U.S. Government securities.....	15,759
Total collateral invested.....	\$ 1,327,387

d. South Carolina Retirement Systems

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure, the Systems' deposits may not be recovered. As prescribed by law, the State Treasurer is the custodian of all deposits and is responsible for securing all deposits held by banks or savings and loan associations. These deposits must be secured by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution, or for any other cause. All deposits are required to be insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100 thousand or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. As of June 30, 2005, the reported amount of the Systems' deposits was \$7.055 million and the bank balance was \$23.654 million. At June 30, 2005, approximately \$685 thousand was exposed to custodial credit risk as uninsured and uncollateralized deposits except for amounts covered by FDIC. These deposits with one bank were not fully insured or collateralized due to the late posting of certain investment transactions by third party equity portfolio managers. The State Treasurer has arranged for the Systems' third-party safekeeping agent to utilize an open-end diversified collective trust fund to insure that the Systems' deposits maintain sufficient collateral in the future.

Investments

Investing for the Systems is governed by State law allowing investments to be made in a variety of instruments including obligations of the United States and its agencies, securities fully guaranteed by the United States, certain corporate obligations, collateralized repurchase agreements, and equity securities. The market value must not be less than the amount of either the certificate of deposit so secured, including interest, or the amount of the repurchase agreement so collateralized, including interest.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Systems will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Collateral held for certificates of deposit or repurchase agreements must be obligations of the United States or investment grade corporate obligations held by a third party as escrow agent or custodian. At June 30, 2005, all of the Systems' investments were insured and registered.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using effective duration. Effective duration is a method of disclosing interest rate risk that measures the expected change in value of a fixed income security or portfolio for a given change in interest rates. The effective duration and the fair value of the Systems' investments by investment type at June 30, 2005 (amounts presented in thousands), is as follows:

Investment Type	Fair Value	Effective Duration
<u>U.S. Government</u>		
U.S. Treasuries.....	\$ 3,138,994	0.88
U.S. agencies.....	905,059	0.74
Other U. S. Government.....	4,517	6.29
<u>Mortgage Backed</u>		
Government pass-through.....	918,084	2.73
<u>Collateralized Mortgage Obligations</u>		
Government CMO's.....	308,181	3.12
<u>Corporate</u>		
Corporate bonds.....	4,497,556	6.49
Corporate asset backed.....	551,098	0.37
Private placements.....	1,153,580	9.58
Municipal bonds.....	44,364	3.50
Non U. S. fixed income - developed corporate markets.....	85,298	3.24
<u>Short Term Investments</u>		
Commercial paper.....	138,625	0.05
Repurchase agreements	2,608,547	0.00
U.S. agencies.....	209,590	0.27
<u>Equity</u>		
Domestic.....	10,839,767	Not Required
American depository receipts.....	193,037	Not Required
Total Invested Assets.....	\$ 25,596,297	

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Systems. The investment policy for credit quality of debt securities states that securities must bear an investment grade rating from at least two of the national rating agencies. Credit quality of cash reserves must carry a rating of A1/P1/F1 or D1 from at least two nationally recognized rating services. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security. As of June 30, 2005, the Systems' applicable debt investments (expressed in thousands) were rated by Standard & Poor's and are presented below:

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	CCC and Below	A-1	Not Rated
Fixed Income									
Corporate:									
Corporate bonds.....	\$ 185,309	\$ 185,128	\$ 2,122,821	\$ 1,634,259	\$ 292,556	\$ 49,310	\$ 120	\$ —	\$ 28,053
Corporate asset backed.....	551,098	—	—	—	—	—	—	—	—
Private placements.....	145,918	249,153	427,623	282,800	—	—	—	—	48,086
Municipal bonds.....	—	—	—	44,364	—	—	—	—	—
Non U. S. fixed income - developed corporate markets.....	—	—	85,298	—	—	—	—	—	—
Short Term Investments									
Commercial paper.....	—	—	—	—	—	—	—	138,625	—
Repurchase agreements	—	—	—	—	—	—	—	2,608,547	—
Totals.....	\$ 882,325	\$ 434,281	\$ 2,635,742	\$ 1,961,423	\$ 292,556	\$ 49,310	\$ 120	\$ 2,747,172	\$ 76,139

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Systems' policy for reducing this risk is to comply with State law requiring that the fixed income portfolio shall contain no more than 5% exposure to any single issuer, except for United States Treasury and agency obligations. At June 30, 2005, the Systems had no investment, fixed income or equity, in any single organization that represented 5% or more of the Systems' assets.

Securities Lending Program

Through a custodial agent, the South Carolina Retirement System (SCRS), the Police Officers' Retirement System (PORS), the General Assembly Retirement System (GARS), and the Judges' and Solicitors' Retirement System (JSRS) participate in a securities lending program whereby securities are loaned for the purpose of generating additional income to the Systems. The Systems lend securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102.0% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100.0%.

There are no restrictions on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2005, included U.S. Government securities, U.S. Government agencies, corporate bonds, convertible bonds, and equities. The contractual agreement with the Systems' custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the Systems income distribution by the securities' issuers while the securities are on loan. Cash and U.S. Government securities were received as collateral for these loans. The Systems cannot pledge or sell collateral securities without a borrower default. The Systems invest cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded, as the Systems must return the cash collateral to the borrower upon the expiration of the loan. With regard to custodial credit risk, the Systems' cash collateral invested is held by the counterparty and is uninsured. The weighted average maturity of the Systems' collateral investments generally matched the maturity of the securities loans during the fiscal year and at June 30, 2005. At June 30, 2005, there had been no losses resulting from borrower defaults and the Systems had no credit risk exposure to borrowers because the amounts the Systems owed the borrowers exceeded the amounts the borrowers owed the Systems.

State of South Carolina

The following table presents the fair value (amounts expressed in thousands) of the underlying securities and the total collateral received for securities on loan at June 30, 2005.

	SCRS	PORS	GARS	JSRS	Totals
Securities lent for cash collateral:					
U.S. Treasuries.....	\$ 1,927,395	\$ 292,047	\$ 1,706	\$ 16,196	\$ 2,237,344
U.S. agencies.....	508,165	127,743	1,749	5,130	642,787
Corporate bonds.....	105,078	12,858	282	564	118,782
Common stock.....	897,921	109,217	1,977	4,669	1,013,784
Total for cash collateral.....	3,438,559	541,865	5,714	26,559	4,012,697
Securities lent for noncash collateral:					
Equities.....	456	56	1	2	515
U.S. Government securities.....	18,462	11,282	—	76	29,820
Total securities lent.....	\$ 3,457,477	\$ 553,203	\$ 5,715	\$ 26,637	\$ 4,043,032
Cash collateral invested:					
Repurchase agreements.....	\$ 692,214	\$ 195,719	\$ 3,251	\$ 13,449	\$ 904,633
Corporate bonds.....	2,137,522	283,627	1,968	11,397	2,434,514
Asset backed securities.....	444,314	43,398	292	1,763	489,767
Bank notes.....	255,976	24,403	389	695	281,463
Total for cash collateral invested.....	3,530,026	\$ 547,147	5,900	27,304	4,110,377
Securities received as collateral:					
U.S. Government securities.....	20,177	11,911	—	83	32,171
Total collateral invested.....	\$ 3,550,203	\$ 559,058	\$ 5,900	\$ 27,387	\$ 4,142,548

The Systems retains a consultant to provide investment-consulting services necessary to fulfill the duties for investing in equity securities. As of June 30, 2005, eighteen individual agreements were in place between the Systems and equity investment managers.

On June 30, 2005, the Systems held collateralized mortgage obligations (CMOs) in its portfolios. The CMOs in these portfolios consist of the planned amortizations class-1 (PAC-1) and the very accurately defined maturity (VADM) tranches of these issues. These securities are all rated AAA by the major rating agencies and are highly marketable.

On June 30, 2005, the Systems also held asset-backed securities in its portfolios. These securities had an average life of one to three years with a legal final maturity of two to five years. These securities represent an undivided ownership interest in a trust consisting of auto loan receivables. During fiscal year 2004-2005, additional holdings were added to this category as an alternative to cash investments with an average life of one year. These securities are rated AAA by the major rating agencies. In addition, under the asset-backed securities category, the Systems held bonds issued by the South Carolina Tobacco Settlement Revenue Management Authority, a non-major governmental fund. These securities are rated Baa2/BBB and have an average life of 4.12 years with a legal maturity of 2016.

NOTE 5: RECEIVABLES

Receivable balances are disaggregated by type according to their liquidity characteristics and are presented separately in the financial statements, net of applicable allowances. Allowances for uncollectible receivables (expressed in thousands) at June 30, 2005, for the primary government were as follows:

Governmental Activities					
Governmental Funds					
	General	Departmental General Operating	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Allowances for Uncollectibles					
Income taxes receivable.....	\$ 22,092	\$ —	\$ —	\$ —	\$ 22,092
Sales and other taxes receivable.....	11,423	5	4,445	—	15,873
Patient accounts receivable.....	12,986	29,969	—	—	42,955
Loans and notes receivable.....	16	11	837	—	864
Other receivables.....	1	15,075	—	288	15,364
Total allowances for uncollectibles.....	\$ 46,518	\$ 45,060	\$ 5,282	\$ 288	\$ 97,148

Business-type Activities (Enterprise Funds)					
	Higher Education	Unemployment Compensation Benefits	Medical University Hospital Authority	Nonmajor Enterprise Funds	Total Business-type Activities
Allowances for Uncollectibles					
Contributions receivable.....	\$ 639	\$ —	\$ —	\$ —	\$ 639
Student accounts receivable.....	6,925	—	—	—	6,925
Patient accounts receivable.....	—	—	43,700	59,330	103,030
Loans and notes receivable.....	104	—	—	—	104
Loans and notes receivable—restricted.....	592	—	—	355	947
Assessments receivable.....	—	5,635	—	—	5,635
Other receivables.....	694	2,575	—	—	3,269
Total allowances for uncollectibles.....	\$ 8,954	\$ 8,210	\$ 43,700	\$ 59,685	\$ 120,549

The enterprise fund financial statements separately present long-term receivables (net receivable balances not expected to be collected within one year). Net receivables not expected to be collected within one year in governmental and internal service funds (expressed in thousands) at June 30, 2005, were as follows:

Governmental Activities							
Governmental Funds							
	General	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Net Long-term Receivables							
Accounts receivable.....	\$ 253	\$ 20,866	\$ 40,333	\$ —	\$ —	\$ 90	\$ 61,542
Income taxes receivable.....	35,250	—	—	—	—	—	35,250
Sales and other taxes receivable.....	37,875	34	—	—	10,867	—	48,776
Patient accounts receivable.....	4,327	6,180	—	—	—	—	10,507
Loans and notes receivable.....	14	578	366,366	7,579	17,631	—	392,168
Accounts receivable—restricted.....	—	—	432,464	—	—	—	432,464
Total long-term receivables, net.....	\$ 77,719	\$ 27,658	\$ 839,163	\$ 7,579	\$ 28,498	\$ 90	\$ 980,707

NOTE 6: DETAILS OF RESTRICTED ASSETS

The purposes and amounts of the State's restricted assets (including the major discretely presented component units) at June 30, 2005 (expressed in thousands) were as follows:

Asset/Restricted For	Governmental Activities	Business-type Activities	Major Component Units
Current:			
Cash and Cash Equivalents			
Debt service.....	\$ 63,623	\$ 109,384	\$ 117,335
Capital projects.....	—	34,139	11
Student loan programs.....	—	388	—
Donor/sponsor specified.....	—	16,359	—
Endowments.....	—	67	—
Second Injury Fund claims.....	—	41,797	—
Other.....	—	622	455
Total Cash and Cash Equivalents.....	\$ 63,623	\$ 202,756	\$ 117,801
Investments			
Debt service.....	\$ 113,729	\$ 316	\$ 40,405
Donor/sponsor specified.....	—	7,756	—
Endowments.....	—	67	—
Other.....	—	—	12,240
Total Investments.....	\$ 113,729	\$ 8,139	\$ 52,645
Loans Receivable			
Student loan programs.....	\$ —	\$ 305	\$ —
Other			
Debt service.....	\$ 63,182	\$ 1,262	\$ —
Donor/sponsor specified.....	—	684	—
Second Injury Fund claims.....	—	503	—
Other.....	—	28	—
Total Other.....	\$ 63,182	\$ 2,477	\$ —
Noncurrent:			
Cash and Cash Equivalents			
Debt service.....	\$ 289,240	\$ 277,475	\$ 20,447
Capital projects.....	321,909	413,875	60,812
Student loan programs.....	—	8,146	—
Endowments.....	—	37,433	—
Other.....	—	1,492	16,794
Total Cash and Cash Equivalents.....	\$ 611,149	\$ 738,421	\$ 98,053
Investments			
Debt service.....	\$ —	\$ 79,616	\$ 90,439
Capital projects.....	—	2,558	230,368
Student loan programs.....	—	587	—
Endowments.....	—	40,156	—
Other.....	—	—	98,380
Total Investments.....	\$ —	\$ 122,917	\$ 419,187
Accounts Receivable			
Debt service.....	\$ 432,464	\$ —	\$ —
Loans Receivable			
Debt service.....	\$ —	\$ 497,944	\$ —
Student loan programs.....	—	53,151	—
Total Loans Receivable.....	\$ —	\$ 551,095	\$ —
Other			
Debt service.....	\$ 3,873	\$ 6,180	\$ 473
Capital projects.....	—	272	—
Donor/sponsor specified.....	—	716	—
Endowments.....	—	8,123	—
Total Other.....	\$ 3,873	\$ 15,291	\$ 473

NOTE 7: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2005, for the primary government was as follows:

	Beginning Balances July 1, 2004	Increases	Decreases	Ending Balances June 30, 2005
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 1,348,989	\$ 92,971	\$ (55)	\$ 1,441,905
Construction in progress.....	3,326,648	744,792	(237,776)	3,833,664
Works of art and historical treasures.....	3,660	45	—	3,705
Intangibles.....	—	46	—	46
<i>Total capital assets not being depreciated.....</i>	<u>4,679,297</u>	<u>837,854</u>	<u>(237,831)</u>	<u>5,279,320</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	53,120	1,567	(26)	54,661
Infrastructure (road and bridge network).....	7,636,034	211,988	(3,924)	7,844,098
Buildings and improvements.....	1,421,223	27,121	(4,206)	1,444,138
Vehicles.....	537,224	24,141	(16,797)	544,568
Machinery and equipment.....	400,766	33,137	(22,075)	411,828
Depreciable works of art and historical treasures.....	8	—	—	8
Intangibles.....	41,625	2,967	—	44,592
<i>Total capital assets being depreciated, at historical cost.....</i>	<u>10,090,000</u>	<u>300,921</u>	<u>(47,028)</u>	<u>10,343,893</u>
<i>Less accumulated depreciation for:</i>				
Depreciable land improvements.....	(35,215)	(1,498)	—	(36,713)
Infrastructure (road and bridge network).....	(1,860,230)	(103,991)	3,544	(1,960,677)
Buildings and improvements.....	(511,042)	(32,965)	3,465	(540,542)
Vehicles.....	(373,752)	(30,504)	14,906	(389,350)
Machinery and equipment.....	(290,124)	(24,964)	19,866	(295,222)
Depreciable works of art and historical treasures.....	(1)	—	—	(1)
Intangibles.....	(28,763)	(11,026)	—	(39,789)
<i>Total accumulated depreciation.....</i>	<u>(3,099,127)</u>	<u>(204,948)</u>	<u>41,781</u>	<u>(3,262,294)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>6,990,873</u>	<u>95,973</u>	<u>(5,247)</u>	<u>7,081,599</u>
Capital assets for governmental activities, net.....	<u>\$ 11,670,170</u>	<u>\$ 933,827</u>	<u>\$ (243,078)</u>	<u>\$ 12,360,919</u>

	Beginning Balances July 1, 2004	Increases	Decreases	Ending Balances June 30, 2005
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 166,469	\$ 9,871	\$ (3,815)	\$ 172,525
Construction in progress.....	373,483	275,294	(244,522)	404,255
Works of art and historical treasures.....	16,809	—	—	16,809
<i>Total capital assets not being depreciated.....</i>	<u>556,761</u>	<u>285,165</u>	<u>(248,337)</u>	<u>593,589</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	70,076	4,395	(2,930)	71,541
Buildings and improvements.....	2,868,324	276,037	(4,377)	3,139,984
Vehicles.....	38,744	4,530	(2,172)	41,102
Machinery and equipment.....	572,993	61,648	(31,802)	602,839
Depreciable works of art and historical treasures.....	6,988	968	—	7,956
Intangibles.....	14,924	1,736	—	16,660
<i>Total capital assets being depreciated, at historical cost.....</i>	<u>3,572,049</u>	<u>349,314</u>	<u>(41,281)</u>	<u>3,880,082</u>
<i>Less accumulated depreciation for:</i>				
Depreciable land improvements.....	(31,717)	(3,010)	13	(34,714)
Buildings and improvements.....	(1,093,879)	(84,888)	6,275	(1,172,492)
Vehicles.....	(28,169)	(2,657)	2,082	(28,744)
Machinery and equipment.....	(370,665)	(52,795)	26,111	(397,349)
Depreciable works of art and historical treasures.....	(4,884)	(135)	—	(5,019)
Intangibles.....	(10,230)	(1,823)	—	(12,053)
<i>Total accumulated depreciation.....</i>	<u>(1,539,544)</u>	<u>(145,308)</u>	<u>34,481</u>	<u>(1,650,371)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,032,505</u>	<u>204,006</u>	<u>(6,800)</u>	<u>2,229,711</u>
Capital assets for business-type activities, net.....	<u><u>\$ 2,589,266</u></u>	<u><u>\$ 489,171</u></u>	<u><u>\$ (255,137)</u></u>	<u><u>\$ 2,823,300</u></u>

Capital asset activity (expressed in thousands) for the State's major discretely presented component units was as follows:

	Beginning Balances January 1, 2004	Increases	Decreases	Ending Balances December 31, 2004
Public Service Authority:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 95,886	\$ 1,144	\$ (618)	\$ 96,412
Construction in progress.....	513,169	386,189	(262,396)	636,962
<i>Total capital assets not being depreciated.....</i>	<u>609,055</u>	<u>387,333</u>	<u>(263,014)</u>	<u>733,374</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements (utility plant).....	3,888,957	325,008	(54,239)	4,159,726
Vehicles.....	32,812	4,287	(1,156)	35,943
Machinery and equipment.....	19,737	1,743	(1,175)	20,305
Intangibles.....	40,806	4,156	(403)	44,559
Total capital assets being depreciated, at historical cost.....	<u>3,982,312</u>	<u>335,194</u>	<u>(56,973)</u>	<u>4,260,533</u>
Less accumulated depreciation for:				
Buildings and improvements (utility plant).....	(1,606,816)	(178,807)	21,599	(1,764,024)
Vehicles.....	(17,610)	(1,843)	237	(19,216)
Machinery and equipment.....	(8,356)	(719)	112	(8,963)
Intangibles.....	(34,170)	(2,678)	403	(36,445)
Total accumulated depreciation.....	<u>(1,666,952)</u>	<u>(184,047)</u>	<u>22,351</u>	<u>(1,828,648)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>2,315,360</u>	<u>151,147</u>	<u>(34,622)</u>	<u>2,431,885</u>
Public Service Authority, net.....	<u>\$ 2,924,415</u>	<u>\$ 538,480</u>	<u>\$ (297,636)</u>	<u>\$ 3,165,259</u>

	Beginning Balances January 1, 2004	Increases	Decreases	Ending Balances December 31, 2004
Connector 2000 Association:				
<i>Capital assets being depreciated:</i>				
Infrastructure (toll road).....	\$ 192,472	\$ —	\$ —	\$ 192,472
Machinery and equipment.....	547	46	(3)	590
Total capital assets being depreciated, at historical cost.....	<u>193,019</u>	<u>46</u>	<u>(3)</u>	<u>193,062</u>
Less accumulated depreciation for:				
Infrastructure (toll road).....	(14,210)	(5,243)	—	(19,453)
Machinery and equipment.....	(278)	(112)	2	(388)
Total accumulated depreciation.....	<u>(14,488)</u>	<u>(5,355)</u>	<u>2</u>	<u>(19,841)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>178,531</u>	<u>(5,309)</u>	<u>(1)</u>	<u>173,221</u>
Connector 2000 Association, net.....	<u>\$ 178,531</u>	<u>\$ (5,309)</u>	<u>\$ (1)</u>	<u>\$ 173,221</u>

	Beginning Balances July 1, 2004	Increases	Decreases	Ending Balances June 30, 2005
State Ports Authority:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 141,760	\$ 3,488	\$ —	\$ 145,248
Construction in progress.....	65,080	33,136	(44,760)	53,456
Intangibles.....	3,230	—	(1,040)	2,190
<i>Total capital assets not being depreciated.....</i>	<u>210,070</u>	<u>36,624</u>	<u>(45,800)</u>	<u>200,894</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	153,150	2,800	—	155,950
Buildings and improvements.....	249,545	20,246	(2,556)	267,235
Machinery and equipment.....	80,040	22,124	(1,017)	101,147
Intangibles.....	692	—	—	692
Total capital assets being depreciated, at historical cost.....	<u>483,427</u>	<u>45,170</u>	<u>(3,573)</u>	<u>525,024</u>
Less accumulated depreciation for:				
Depreciable land improvements.....	(92,380)	(6,380)	—	(98,760)
Buildings and improvements.....	(132,208)	(10,160)	2,337	(140,031)
Machinery and equipment.....	(44,052)	(7,039)	1,004	(50,087)
Intangibles.....	(75)	(135)	—	(210)
Total accumulated depreciation.....	<u>(268,715)</u>	<u>(23,714)</u>	<u>3,341</u>	<u>(289,088)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>214,712</u>	<u>21,456</u>	<u>(232)</u>	<u>235,936</u>
State Ports Authority, net.....	<u>\$ 424,782</u>	<u>\$ 58,080</u>	<u>\$ (46,032)</u>	<u>\$ 436,830</u>

	Beginning Balances July 1, 2004	Increases	Decreases	Ending Balances June 30, 2005
Lottery Commission:				
<i>Capital assets being depreciated:</i>				
Buildings and improvements.....	\$ 642	\$ —	\$ —	\$ 642
Vehicles.....	69	—	—	69
Machinery and equipment.....	19,836	88	(36)	19,888
Total capital assets being depreciated, at historical cost.....	<u>20,547</u>	<u>88</u>	<u>(36)</u>	<u>20,599</u>
Less accumulated depreciation for:				
Buildings and improvements.....	(270)	(128)	—	(398)
Vehicles.....	(49)	(16)	—	(65)
Machinery and equipment.....	(7,992)	(3,448)	14	(11,426)
Total accumulated depreciation.....	<u>(8,311)</u>	<u>(3,592)</u>	<u>14</u>	<u>(11,889)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>12,236</u>	<u>(3,504)</u>	<u>(22)</u>	<u>8,710</u>
Lottery Commission, net.....	<u>\$ 12,236</u>	<u>\$ (3,504)</u>	<u>\$ (22)</u>	<u>\$ 8,710</u>

During the fiscal year ended June 30, 2005, depreciation expense was charged to functions of the primary government and its major discretely presented component units as follows (expressed in thousands):

	Governmental Funds	Internal Service Funds	Total Governmental Activities
General government.....	\$ 18,244	\$ 6,811	\$ 25,055
Education.....	18,109	1,294	19,403
Health and environment.....	12,546	1,013	13,559
Social services.....	503	1,223	1,726
Administration of justice.....	17,609	986	18,595
Resources and economic development.....	6,980	195	7,175
Transportation.....	119,435	—	119,435
Total depreciation expense, governmental activities.....	<u>\$ 193,426</u>	<u>\$ 11,522</u>	<u>\$ 204,948</u>

	Business- type Activities
Higher Education.....	\$ 116,369
Housing Authority.....	119
Medical University Hospital Authority.....	20,260
Education Assistance Authority.....	76
Other.....	8,484
Total depreciation expense, business-type activities.....	<u>\$ 145,308</u>

	Major Component Units
Public Service Authority.....	\$ 184,047
State Ports Authority.....	23,714
Connector 2000 Association, Inc.....	5,355
Lottery Commission.....	3,592

At June 30, 2005, the primary government had outstanding construction commitments totaling \$807.904 million for capital projects in progress. In addition, outstanding construction commitments at that date totaled \$58.129 million for significant permanent improvement projects that will not increase State assets. Projects that will not be capitalized as State assets upon completion include projects for replacements, repairs, and/or renovations to existing facilities. In addition, the primary government had outstanding commitments totaling \$2.817 million at June 30, 2005, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: \$648.524 million for the Public Service Authority at December 31, 2004, and \$18.820 million for the State Ports Authority at June 30, 2005.

The total interest expense incurred by the State's enterprise and internal service funds during the current fiscal year was \$152.583 million and \$2.184 million, respectively. Of the amount incurred by the State's enterprise funds, \$9.156 million was included as part of the cost of capital assets under construction, net of interest earnings.

The Public Service Authority, a major discretely presented component unit, incurred total interest costs of \$163.864 million during its fiscal year ended December 31, 2004, none of which was included in the cost of capital assets under construction. The State Ports Authority, a major discretely presented component unit, incurred total interest costs of \$6.641 million during its fiscal year ended June 30, 2005, of which \$807 thousand was included as part of the cost of capital assets under construction.

NOTE 8: RETIREMENT PLANS

a. Plan Descriptions

The South Carolina Retirement Systems (the System), a part of the State Budget and Control Board, administers four defined benefit retirement plans: the South Carolina Retirement System (SCRS), the South Carolina Police Officers' Retirement System (PORS), the Retirement System for Members of the General Assembly of the State of South Carolina (GARS), and the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS). The System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for all four plans. The report may be obtained by writing to:

The South Carolina Retirement Systems
Fontaine Business Center
202 Arbor Lake Drive
Columbia, South Carolina 29223

SCRS, established by Section 9-1-20 of the South Carolina Code of Laws, is a cost-sharing multiple-employer defined benefit pension plan that benefits employees of public schools, the State, and its political subdivisions. For most employees, membership is required as a condition of employment, unless exempted by State law. Both employers and employees must contribute. Benefits vest after five years of service. Vested members who retire at age sixty-five or with twenty-eight years of service at any age receive an annual benefit, payable monthly, for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 1.82% of average final compensation times years of service. Reduced benefits are payable as early as age fifty-five.

PORS, established by Section 9-11-20 of the South Carolina Code of Laws, is a cost-sharing multiple-employer defined benefit pension plan that benefits police officers and fire fighters employed by the State or its political subdivisions. For most employees, membership is required as a condition of employment, unless exempted by State law. Both employers and employees must contribute. Benefits vest after five years of service. An annual benefit is payable at age fifty-five for members who retire with a minimum of five years service. Vested members who retire with twenty-five years of service receive an annual benefit, payable monthly for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 2.14% of average final compensation times years of service.

GARS, established by Section 9-9-20 of the South Carolina Code of Laws, is a single-employer defined benefit pension plan that benefits members of the South Carolina General Assembly. Membership is required as a condition of taking office as a member of the General Assembly, unless exempted by State law. Both the members of the General Assembly and the State must contribute. Benefits vest after eight years of service. Vested members who retire at age sixty or at any age with thirty years of service receive an annual benefit, payable monthly, for life. Effective January 1, 2003, a member at age seventy or with thirty years of service is eligible to retire and draw an annuity while continuing to serve in the General Assembly. The annual benefit amount is 4.82% of earnable compensation times years of service. Earnable compensation is defined as forty days' pay at the rate currently paid to members of the General Assembly plus \$12 thousand.

JSRS, established by Section 9-8-20 of the South Carolina Code of Laws, is a single-employer defined benefit pension plan that benefits the judges of the State's Supreme Court, Court of Appeals, circuit courts, family courts, and the State's circuit solicitors. Membership is required as a condition of taking office, unless exempted by State law. Both judges and the State must contribute. Benefits vest after ten years of service in a position as a judge and eight years in a position as a solicitor. Members may retire at age seventy with fifteen years of service, at age sixty-five with twenty years of service, at age sixty-five with four years in a JSRS position and twenty-five years other service with the State, twenty-five years service regardless of age for a judge or twenty-four years of service for a solicitor regardless of age. Members receive a retirement benefit equal to 71.3% of the current active salary of the position occupied at retirement.

Information regarding the number of participating employers (dollars expressed in thousands) at June 30, 2005, is as follows:

	SCRS	PORS	GARS	JSRS
State and school				
Number of employers.....	100	5	1	1
Annual covered payroll.....	\$ 4,718,799	\$ 295,049	\$ 3,084	\$ 14,643
Average number of contributing members....	140,348	9,818	170	128
Other participating employers				
Number of employers.....	560	263	—	—
Annual covered payroll.....	\$ 1,497,701	\$ 508,021	\$ —	\$ —
Average number of contributing members....	50,515	14,619	—	—

The plans provide retirement, death, and disability benefits to State employees; public school employees; and employees of counties, municipalities, and certain other State political subdivisions. Each plan is independent. Assets of each plan may be used only to benefit participants of that plan.

b. Summary of Significant Accounting Policies—Basis of Accounting and Valuation of Investments

The financial statements of the previously-described plans are prepared using the accrual basis of accounting. Employee and employer contributions are recognized in the period in which the contributions are due. Retirement benefits and refund expenses are recognized when due and payable in accordance with the terms of each plan.

Note 1f specifies the method used to value pension trust fund investments.

c. Funding Policies

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws prescribes requirements relating to membership, benefits, and employee/employer contributions for each plan. The following paragraphs summarize those requirements.

By law, employee contribution requirements for the fiscal year ended June 30, 2005, were as follows:

Plan	Rate
SCRS	6.0% of earnable compensation
PORS	6.5% of earnable compensation
GARS	10.0% of earnable compensation
JSRS	8.0% of earnable compensation

Actuarially determined employer contribution rates for the four plans, expressed as percentages of compensation, for the fiscal year ended June 30, 2005, were as follows:

Plan	Rate
SCRS	7.70%
PORS	10.70%
GARS	93.71%
JSRS	41.65%

Under certain conditions, new employers entering the plans are allowed up to ten years to remit matching employer contributions resulting from their employees' purchase of prior service credits. Interest is assessed annually on the unpaid balance. The amounts outstanding at June 30, 2005, were \$1.755 million for SCRS and \$30 thousand for PORS.

d. Annual Pension Cost

Annual pension cost (dollars expressed in thousands) and related actuarial data for the State's single-employer defined benefit pension plans were as follows:

	GARS	JSRS
Annual pension cost.....	\$2,890	\$6,260
Employer contributions made.....	\$2,890	\$6,260
Actuarial valuation date.....	July 1, 2004	July 1, 2004
Actuarial cost method.....	Entry age	Entry age
Amortization method.....	Level percent, closed	Level percent, open
Remaining amortization period.....	23 years	28 years
Asset valuation method.....	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Investment rate of return.....	7.25%	7.25%
Projected salary increases.....	None	3.25%
Assumed inflation rate.....	3.00%	3.00%
Assumed cost-of-living adjustments.....	None	3.25%

e. Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due.

For the cost-sharing multiple-employer defined benefit pension plans in which the State participates, the State's required contributions in dollars (expressed in thousands) and the percentages of those amounts contributed for the three latest available years were as follows. Also see Note 8f for funding status and progress.

	Fiscal Year Ended					
	June 30, 2005		June 30, 2004		June 30, 2003	
	Required	% Contributed	Required	% Contributed	Required	% Contributed
SCRS—State:						
Primary government.....	\$ 177,112	100%	\$ 172,258	100%	\$ 176,152	100%
Component units.....	10,253	100%	9,852	100%	9,595	100%
PORS—State:						
Primary government.....	\$ 32,813	100%	\$ 33,220	100%	\$ 34,566	100%
Component units.....	51	100%	40	100%	30	100%

The following table presents (dollars expressed in thousands) the annual pension cost, percentage of annual pension cost contributed, and the net pension obligation for the three latest available years for the State's single-employer defined benefit plans. Also see Note 8f for funding status and progress:

Plan	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
GARS	2003	\$ 2,577	100%	\$ —
	2004	2,731	100%	—
	2005	2,890	100%	—
JSRS	2003	\$ 6,014	100%	\$ —
	2004	6,078	100%	—
	2005	6,260	100%	—

f. Funding Status and Progress (Unaudited)

The following schedule (dollars expressed in thousands) describes the funding progress for the SCRS and the PORS, cost-sharing multiple-employer defined benefit plans, for the three latest available years:

Plan	Actuarial Valuation Date July 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SCRS	2002	\$ 19,298,174	\$ 22,446,574	\$ 3,148,400	86.0%	\$ 6,147,712	51.2%
	2003	20,197,936	24,398,931	4,200,995	82.8%	6,240,768	67.3%
	2004	20,862,659	25,977,852	5,115,193	80.3%	6,180,599	82.8%
PORS	2002	\$ 2,351,100	\$ 2,527,876	\$ 176,776	93.0%	\$ 757,393	23.3%
	2003	2,511,369	2,744,849	233,480	91.5%	800,394	29.2%
	2004	2,616,835	2,984,584	367,749	87.7%	822,448	44.7%

The following schedule (dollars expressed in thousands) describes the funding progress for the State's single-employer defined benefit plans for the three latest available years:

Plan	Actuarial Valuation Date July 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
GARS	2002	\$ 43,841	\$ 73,046	\$ 29,205	60.0%	\$ 4,515	646.8%
	2003	44,682	66,619	21,937	67.1%	3,844	570.7%
	2004	45,087	68,332	23,245	66.0%	3,839	605.5%
JSRS	2002	\$ 100,074	\$ 166,440	\$ 66,366	60.1%	\$ 14,211	467.0%
	2003	106,114	166,655	60,541	63.7%	14,437	419.3%
	2004	112,016	185,052	73,036	60.5%	14,870	491.2%

Included among the measurements of long-term funding progress for defined benefit pension plans are whether a plan's funding ratio is increasing and whether a plan's unfunded liability (UAAL) as a percentage of covered payroll is decreasing. The tables above present the results of those measurements.

The State records the pension liability for cost of living adjustments (COLAs) in the SCRS and PORS only as COLAs are granted. Accordingly, because COLA benefits are not automatically guaranteed, the plans exclude from their actuarial accrued liability calculations and from their funding formulas the costs of providing future COLA benefits.

While the State Budget and Control Board is annually authorized under certain conditions to defer granting COLAs, the Board historically has granted COLAs, even in years when those conditions permitted a deferral. Plan actuaries have determined that the unfunded liabilities for SCRS and PORS would be significantly higher than amounts presented in the table above if the estimated costs of providing future COLA benefits were included in each plan's actuarial accrued liability calculation.

g. Receivables and Investments

The principal components of receivables and investments (expressed in thousands) at June 30, 2005, for the four plans administered by the South Carolina Retirement Systems were as follows:

	SCRS	PORS	GARS	JSRS	Totals
Receivables:					
Contributions.....	\$ 115,365	\$ 14,697	\$ 123	\$ 682	\$ 130,867
Employer long-term.....	1,755	30	—	—	1,785
Accrued interest.....	102,115	11,670	216	543	114,544
Unsettled investment sales.....	43,894	5,234	97	225	49,450
Total receivables.....	\$ 263,129	\$ 31,631	\$ 436	\$ 1,450	\$ 296,646
Due from other funds.....	\$ 5,381	\$ 1,417	\$ 74	\$ 42	\$ 6,914
Investments and invested securities lending collateral:					
United States government securities.....	\$ 2,718,706	\$ 385,895	\$ 1,707	\$ 16,196	\$ 3,122,504
United States government agencies and government-insured securities.....	1,684,747	290,734	4,247	10,471	1,990,199
Corporate bonds.....	3,979,140	432,351	9,305	22,320	4,443,116
Financial and other.....	1,821,367	238,895	2,559	5,140	2,067,961
Equities.....	9,788,784	1,168,825	20,453	50,406	11,028,468
Invested securities lending collateral.....	3,530,026	547,147	5,900	27,304	4,110,377
Total investments.....	\$ 23,522,770	\$ 3,063,847	\$ 44,171	\$ 131,837	\$ 26,762,625

h. Teacher and Employee Retention Incentive Program

The Teacher and Employee Retention Incentive (TERI) program, established by State law, became effective January 1, 2001. The program is a deferred retirement option available to SCRS members eligible for service retirement. Upon entering the TERI program, a member's status changes from active to retired. A TERI participant agrees to continue employment with an employer participating in the system for a specified period, not to exceed five years.

TERI participants retain the same status and employment rights they held upon entering the program but are not considered active employees for purposes of the group life insurance and disability retirement programs. A TERI retiree's monthly benefits are accrued and remain in the SCRS trust account during the TERI participation period, but no interest is accrued or paid thereon. Upon termination of employment or at the end of the TERI participation period (whichever is earlier), a retiree may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution.

A total of 14,016 members were participating in the TERI program at June 30, 2005. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2005, was as follows:

Beginning balance of TERI trust accounts.....	\$ 649,385
Additions	338,778
TERI distributions at termination.....	(103,387)
Ending balance of TERI trust accounts.....	\$ 884,776

i. National Guard Pension System**Plan Description**

The National Guard Pension System (NGPS) is a single-employer defined benefit pension plan administered by the State Adjutant General's Office.

The NGPS, established by Section 25-1-3210 of the South Carolina Code of Laws, provides benefits to National Guard members who served in South Carolina prior to July 1, 1993. National Guard members are considered to be federal government employees. The federal government pays Guard members' drill pay and summer camp pay. In accordance with State law, the State's General Fund pays Guard members' salaries only if the Governor activates the National Guard for service to the State. The pension benefit that the State provides is intended only to supplement the retirement benefit that Guard members receive from the federal government. Members who retire at age sixty with twenty years of military service, including at least fifteen years of South Carolina National Guard duty, ten of which immediately precede retirement, and who have received an honorable discharge, are entitled to monthly pension benefits. The pension amount is equal to \$50 per month for twenty years of creditable service with an additional \$5 per month for each additional year of service, provided that the total pension shall not exceed \$100 per month.

The following table shows the number of employees by type of membership as of June 30, 2004, the date of the latest biennial actuarial valuation:

	<u>NGPS</u>
Retirees and beneficiaries receiving benefits.....	2,535
Terminated employees entitled to benefits but not yet receiving them.....	2,974
Active employees.....	<u>3,425</u>
Total participants.....	<u>8,934</u>

National Guard members who served in South Carolina prior to July 1, 1993, are covered by the plan. NGPS is closed to new entrants.

Basis of Accounting

The financial statements of the NGPS are prepared using the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are due. Retirement benefits are recognized when due and payable in accordance with the terms of the plan.

Receivables and Investments

The assets of the NGPS consist of cash and cash equivalents, accrued interest receivable, and invested securities lending collateral. Note 1f specifies the method used to value pension trust fund investments.

Contributions and Reserves

The South Carolina Code of Laws prescribes requirements relating to NGPS membership, plan benefits, and employer contributions. The plan, which is administered by the Office of the State Adjutant General, requires no contributions from its members.

Article X, Section 16 of the State Constitution requires that all State-operated retirement plans (NGPS is a State-operated retirement plan) be funded on a sound actuarial basis. For plan years following 1996, NGPS has been annually funded in amounts that have been inadequate to comply with its minimum actuarial contribution requirements. Because of these uncorrected funding deficiencies, plan actuaries report that NGPS is not being operated in an actuarially sound manner.

At June 30, 2005, under the accrual basis of accounting the plan has \$11.521 million of net assets for paying supplemental retirement benefits to its members. By comparison, plan actuaries have determined that the plan has \$47.281 million in actuarial accrued liabilities at June 30, 2004.

State of South Carolina

Funding Policy and Annual Pension Cost

The following table provides information concerning funding policies and annual pension cost (dollars expressed in thousands):

	NGPS
Annual pension cost.....	\$2,842
Employer contributions made.....	\$1,996
Actuarial valuation date.....	June 30, 2004
Actuarial cost method.....	Entry age
Amortization method.....	Level dollar, open
Remaining amortization period.....	30 years
Asset valuation method.....	5-year smoothed market
Actuarial assumptions:	
Investment rate of return.....	7.25%
Projected salary increases.....	Not applicable
Assumed inflation rate	4.25%
Assumed cost-of-living adjustments.....	Not applicable

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2005 (expressed in thousands):

	NGPS
Actuarially required contribution (ARC).....	\$ 2,969
Interest on the NPO.....	590
Adjustment to the ARC.....	(717)
Annual pension cost.....	2,842
Contributions made.....	1,996
Increase in NPO.....	846
NPO beginning of year.....	8,132
NPO end of year.....	\$ 8,978

The State recognized \$1.996 million of expenditures in the General Fund to pay a portion of the current fiscal years' actuarially determined contribution.

The following schedule (dollars expressed in thousands) describes the funding progress for the NGPS for each of the three most recent actuarial valuations:

Biennial Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2000	\$ 11,089	\$ 43,427	\$ 32,338	25.5%	\$ 40,789	79.3%
2002	12,608	44,678	32,070	28.2%	45,711	70.2%
2004	13,567	47,281	33,714	28.7%	42,391	79.5%

Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. The following table presents the annual pension cost, percentage of annual pension cost contributed, and the net pension obligation for the latest three fiscal years for the plan (dollars expressed in thousands):

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 2,759	77.3%	\$ 7,151
2004	2,796	71.4%	8,132
2005	2,842	70.2%	8,978

Financial Statements

The NGPS does not issue separate financial statements. Accordingly, the financial statements for the NGPS are presented below:

**Statement of Plan Net Assets
National Guard Pension System
June 30, 2005
(Expressed in Thousands)**

ASSETS	
Cash and cash equivalents.....	\$ 11,451
Accrued interest receivable.....	70
Invested securities lending collateral.....	572
Total assets	12,093
LIABILITIES	
Securities lending collateral.....	572
Total liabilities.....	572
NET ASSETS	
Held in trust for pension benefits....	\$ 11,521

**Statement of Changes in Plan Net Assets
National Guard Pension System
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)**

Additions:	
Employer retirement contributions.....	\$ 1,996
Investment income.....	557
Total additions.....	2,553
Deductions:	
Regular retirement benefits.....	2,519
Administrative expense.....	25
Total deductions.....	2,544
Net increase in plan net assets.....	9
Net assets held in trust for pension benefits:	
Beginning of year.....	11,512
End of year.....	\$ 11,521

Subsequent Event

While the State Adjutant General currently administers the NGPS, the State General Assembly passed legislation during 2005 transferring NGPS administration to the Director of the South Carolina Retirement Systems. This transfer will be effective January 1, 2006.

j. Defined Contribution Plan

As an alternative to membership in SCRS, certain State and public school employees may elect to participate in State ORP. Participants in State ORP direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers and are governed by the terms of the contracts that those providers issue. Accordingly, balances of the State ORP are not reported in the accompanying financial statements.

Under State law, contributions to the State ORP are at the same rates as for the SCRS (see Subsection c, Funding Policies). Covered payroll amounts as well as the amounts of actual employer and employee contributions to the State ORP are summarized in the following schedule (expressed in thousands) for the fiscal year ended June 30, 2005:

Covered payroll.....	\$ 477,166
Employee contributions.....	28,630
Employer contributions.....	23,858

NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State provides post-employment health and dental benefits to certain former State employees and to certain of their surviving dependents. Generally, retirees are eligible for the benefits if they have established at least ten years of retirement service credit, whereas other former employees are eligible only if they have established at least twenty years of retirement service credit. Benefits become effective when the former employee retires under a State retirement system. Currently, 27,086 retirees meet these eligibility requirements.

Eligible retirees choose among two health insurance plans and two Health Maintenance Organization (HMO) options, all of which are underwritten by the State. The two health insurance plans are the Savings Plan and the Standard Plan. In accordance with contractual provisions of these plans, participants must meet specified annual deductible requirements. The Standard Plan and the Savings Plan pay 80.0% of allowable claims in excess of deductibles. The CIGNA HMO has no annual deductible requirements. The Companion HMO pays 90.0% of allowable claims and the CIGNA HMO pays 80.0% of allowable claims, both after co-payments. Participants in the health insurance plans and the HMO options must pay co-payments for prescriptions. The State pays 100.0% of allowable claims after the participant has paid the specified annual out-of-pocket limit prescribed by each option. All options disallow claims in excess of specified annual and lifetime maximums. Participants entitled to receive Medicare benefits may, in some cases, receive reduced State health benefits, although total benefits (State plus Medicare) are equivalent to those received by retirees not entitled to Medicare.

The State also underwrites a dental care plan. Contractual provisions of the plan specify deductible requirements as well as annual and lifetime maximums.

The State finances all health plan options and the dental plan on a pay-as-you-go basis. During the fiscal year ended June 30, 2005, the State recognized expenses (net of participant contributions) of \$101.860 million to provide health and dental benefits to State participants in post-employment status.

Effective January 1, 2006, an additional HMO, BlueChoice HealthPlan of South Carolina, will be available. The BlueChoice HMO will pay 90% of allowable claims after co-payments. Additionally, the State Health Plan will be offering Free & Clear, a free tobacco treatment program, to all subscribers and dependents.

NOTE 10: INSURANCE ACTIVITIES

a. Insurance Reserve Fund

The State generally does not purchase commercial insurance for the risks of losses for property damage, including theft of, damage to, and destruction of assets; automobile liability; tort liability; and medical professional liability. Instead, State management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its Insurance Reserve Fund (IRF), within the internal service funds. The IRF services claims for risk of loss to which the State is

exposed, including the following: property insurance on government owned buildings, the contents of such buildings, equipment, and automobiles; automobile liability insurance on government owned vehicles and school buses; tort liability insurance for government premises and operations; and medical professional liability for hospitals. Although the State is the predominant participant in the IRF, county and municipal governments, school districts and special purpose political subdivisions also participate. The IRF allocates the cost of providing claims servicing and claims payment by charging each participant an actuarially determined "premium."

The IRF reports liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Amounts for allocated and unallocated claims adjustment expenses have been included in the calculation of the unpaid claims liability. The liability is reported net of receivables for salvage, subrogation, and reinsurance. The unpaid policy claims liability of \$251.956 million at June 30, 2005, includes a provision for claims in the process of review and for claims incurred but not reported. The liability for claims incurred but not reported is an actuarial estimate based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, and award trends. This process does not necessarily result in an exact amount. The IRF continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

<u>Fiscal Year Ended June 30</u>	<u>Beginning-of Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2004	\$ 206,884	\$ 65,143	\$ (36,774)	\$ 235,253
2005	235,253	42,065	(25,362)	251,956

The IRF purchases aircraft and ocean marine insurance, areas in which the IRF has limited expertise. The IRF also purchases reinsurance to limit losses in the areas of property, boiler and machinery, and automobile liability. The IRF purchases reinsurance for catastrophic losses in the area of property insurance for losses above \$2.000 million per location and \$10.000 million per occurrence. Reinsurance permits partial recovery of losses from reinsurers; but the IRF, as direct insurer of the risks, remains primarily liable.

b. Employee Insurance Programs Fund

State law established the Employee Insurance Programs Fund, part of the State's internal service funds, to provide health and dental insurance coverage for eligible employees and retirees of State agencies and school districts and to provide group life and long-term disability insurance coverage to eligible active State and public school employees. The State, the predominant participant, retains the risk of loss. Under the health insurance program, participants elect coverage through either self-insured health maintenance organizations (HMO) or State self-insured plans. All dental, group life, and long-term disability coverages are provided through the State's self-insured plans. State funds and payroll deductions pay health and dental premiums for eligible State and public school employees. Agencies and school districts pay the employer share of premiums for retirees. Retirees directly pay their own share of premiums. Agencies and school districts pay the premiums for group life and long-term disability for their employees.

The Employee Insurance Programs Fund establishes claims liabilities when information before the issuance of the financial statements indicates that a liability is probable and estimable at the date of the financial statements. The calculation of the unpaid claims liability includes amounts for allocated and unallocated claims adjustment expenses. The unpaid policy claims liability of \$184.928 million at June 30, 2005, includes a provision for claims in the process of review and for claims incurred but not reported. The Fund actuarially estimates the liability for claims incurred but not reported based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, award trends, and estimates of health care trend changes (cost, utilization, and intensity of services). This process does not necessarily result in an exact amount. The Fund continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

Claim costs for long-term disability coverage are actuarially calculated using the one-year term cost method; the cost of coverage is the present value of all benefit payments that will be made on expected claims incurred during the year following the valuation date. Claim liabilities are equal to the present value, as of the valuation date, of all future payments to be made for disabilities and deaths up to that date. Actuarial assumptions include an interest rate of 6.25% for 2005, compounded annually. Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2005, \$25.954 million relates to group life and long-term disability insurance coverage and \$4.242 million relates to the HMO self-insured managed care plan liability. The State does not discount its claims liabilities for health and dental insurance coverage to present value.

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2004	\$ 188,153	\$ 1,143,209	\$ (1,151,490)	\$ 179,872
2005	179,872	1,161,986	(1,156,930)	184,928

c. State Accident Fund

State law established the State Accident Fund (the Fund), an internal service fund, to provide workers' compensation insurance coverage to State entities. Although the State is the Fund's predominant participant, counties, municipalities, and other political subdivisions of the State may also elect to participate. The State assumes the full risk for workers' compensation claims.

The Fund investigates, adjusts, and pays workers' compensation claims as awarded by the Workers' Compensation Commission for job-related accidental injury, disease, or death to covered individuals. The Fund annually bills participating entities for estimated premiums based on the entity's estimated payroll. After the policy period ends, policyholders submit the details of the actual salaries paid. The Fund then adjusts the premium using the actual payroll data and a rating modifier based on claims experience.

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The claims liabilities include specific incremental claims adjustment expenses but not administrative expenses. The Fund deducts reasonably estimable amounts of salvage and subrogation and reinsurance recoverable, if any, on both settled and unsettled claims from the liability for unpaid claims. The Fund periodically recomputes claims liabilities using a variety of actuarial and statistical techniques to produce current estimates. The Fund charges or credits expense in the period when it adjusts claims liabilities. At June 30, 2005, the Fund's policy claims liability was \$127.366 million. Policy claims in the financial statements include the liabilities for claims reported but not yet paid and for claims incurred but not reported. Because actual claims costs depend on such complex factors as inflation, changes in legal doctrines, and damage awards, computation of the claims liability does not necessarily result in an exact amount.

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2004	\$ 76,849	\$ 78,818	\$ (44,782)	\$ 110,885
2005	110,885	64,656	(48,175)	127,366

The Fund has entered into a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses in excess of \$600 thousand are covered up to limits of statutory liability; the Fund retains the risk for the first \$600 thousand of loss. Reinsurance reduces the Fund's exposure to losses on insured events related to State-owned aircraft in excess of \$1.000 million per occurrence up to a limit of \$9.000 million. The Fund also purchased reinsurance covering losses from an Act of Terrorism up to \$2.000 million per claimant for calendar year 2005. Reinsurance permits partial recovery of losses from reinsurers; but the Fund, as direct insurer of the risks, remains primarily liable.

d. Patients' Compensation Fund and Medical Malpractice Liability Insurance Joint Underwriting Association

The South Carolina Medical Malpractice Patients' Compensation Fund (PCF) and the South Carolina Medical Malpractice Liability Insurance Joint Underwriting Association (JUA) were created by State law. The PCF is accounted for as a nonmajor enterprise fund, and the JUA is a nonmajor discretely presented component unit of the State. The State accounts for the PCF and the JUA as insurance enterprises because they primarily cover non-governmental entities. Accordingly, the PCF and JUA follow the guidance of FASB Statement 60, *Accounting and Reporting by Insurance Enterprises*, and collectively are referred to below as "the insurance enterprises."

The JUA is responsible for payment of that portion of any covered entity's medical malpractice claim, settlement, or judgment up to \$200 thousand per incident or \$600 thousand in the aggregate for one year. The PCF is responsible for payments exceeding these thresholds. In the event that the PCF incurs a liability exceeding \$200 thousand to any person under a single occurrence, the PCF may ultimately pay the claim in full, but it generally may not pay more than

\$200 thousand per year on such claim (although the PCF's Board of Governors may authorize payments in excess of \$200 thousand per year to avoid payment of interest).

Licensed health care providers include physicians and surgeons, directors, officers and trustees of hospitals, nurses, oral surgeons, dentists, pharmacists, chiropractors, hospitals, nursing homes, and any similar category of licensed health care providers. All providers licensed in South Carolina are eligible to participate upon remittance of the annual assessment fees.

The State actuarially establishes claims liabilities for the insurance enterprises based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. At June 30, 2005, the policy claims liabilities were \$210.367 million for the PCF and \$184.816 million for the JUA, and these amounts include a provision for claims reported but not settled and for claims incurred but not reported. Amounts for claims adjustment expenses, when applicable, have been included in the calculation of the unpaid claims liabilities of the insurance enterprises. The enterprises charge or credit expense, as appropriate, in the period when they adjust claims liabilities. The length of time for which claims costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as medical technology, changes in doctrines of legal liability, and damage awards, the process for computing claims liabilities does not necessarily result in an exact amount. The insurance enterprises and their actuaries recompute claims liabilities annually, using a variety of actuarial and statistical techniques, to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit because the insurance enterprises and their actuaries rely both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience.

e. Second Injury Fund

The State accounts for the South Carolina Second Injury Fund, a nonmajor enterprise fund, as a public benefit program rather than an insurance program primarily because its participants—workers' compensation insurance carriers and self-insured employers—do not transfer their risk to the Fund. The Fund services claims in cases where an individual with a preexisting permanent physical impairment incurs a subsequent disability from injury or accident arising out of and in the course of employment. Participants of the Fund, rather than the State, are ultimately responsible for these liabilities.

The Fund collects and invests assessments received from its participants and pays claims on behalf of its participants to the extent that Fund resources are available to pay such claims. The Fund reports these activities in its statement of cash flows. In accordance with accounting principles used by claims processors, the Fund reports as revenue only that portion of assessments and interest earnings intended to cover the Fund's administrative costs, including capital costs. Likewise, the Fund records no claims expense, and it records claims liabilities only to the extent that Fund assets are available to pay such claims.

f. Discretely Presented Component Unit—Public Service Authority (Santee Cooper)

The Public Service Authority (Santee Cooper), a major discretely presented component unit with a fiscal year ended December 31, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions. The Authority purchases commercial insurance to cover these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. Policies are subject to deductibles ranging from \$5 thousand to \$1.000 million with the exception of named storm losses, which carry deductibles from \$1.000 million up to \$15.000 million. In addition, a \$1.400 million self-insured layer exists between the Authority's primary and excess liability policies.

The Authority self-insures its risks related to auto, dental, and environmental incidents that do not arise out of an insured event. Automotive exposure is up to \$2.000 million per incident. Risk exposure for the dental plan is limited by plan provisions. There have not been any third-party claims for environmental damages for calendar year 2004.

The State reports all of the Authority's risk management activities within the Public Service Authority's accounts. The State reports the Authority's claims expenses and liabilities when it is probable that a loss has occurred and the amount of the loss is reasonably estimable.

At December 31, 2004, the policy claims liabilities were \$2.375 million. Changes in the reported liability in each of the past two years were as follows (expressed in thousands):

Fiscal Year Ended December 31	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003	\$ 1,566	\$ 2,167	\$ (1,505)	\$ 2,228
2004	2,228	2,282	(2,135)	2,375

NOTE 11: LEASES

a. Lease Commitments

The State leases land, office facilities, equipment, and other assets under both capital and operating leases. The present value of future minimum capital lease payments and total minimum annual lease payments for capital leases recorded in the government-wide statement of net assets at June 30, 2005 (expressed in thousands), follow for the primary government and for the State's major discretely presented component units, respectively:

Fiscal Year Ending June 30	Governmental Activities	Business- type Activities	Totals
2006	\$ 1,512	\$ 12,734	\$ 14,246
2007	1,259	11,449	12,708
2008	606	7,804	8,410
2009	226	5,102	5,328
2010	83	4,072	4,155
2011 - 2015	—	13,217	13,217
2016 - 2020	—	10,153	10,153
Total minimum payments.....	3,686	64,531	68,217
Less: interest and executory costs.....	(830)	(11,976)	(12,806)
Present value of net minimum payments.....	\$ 2,856	\$ 52,555	\$ 55,411

Fiscal Year Ending December 31	Public Service Authority
2005	\$ 3,603
2006	3,388
2007	3,335
2008	3,038
2009	2,737
2010 - 2014	6,201
Total minimum payments.....	22,302
Less: interest and executory costs.....	(7,373)
Present value of net minimum payments.....	\$ 14,929

Fiscal Year Ending June 30	State Ports Authority
2006	\$ 47
2007	47
2008	46
2009	15
Total minimum payments.....	155
Less: interest and executory costs.....	(20)
Present value of net minimum payments.....	\$ 135

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2005, were as follows (expressed in thousands):

Assets Acquired Under Capital Leases	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Totals	Public Service Authority	State Ports Authority
Land and non-depreciable improvements.....	\$ —	\$ 5,479	\$ 5,479	\$ —	\$ —
Buildings and improvements.....	6,540	54,219	60,759	90,100	—
Machinery and equipment.....	3,101	47,422	50,523	—	185
Works of art and historical treasures.....	—	330	330	—	—
Assets acquired under capital leases before accumulated amortization.....	9,641	107,450	117,091	90,100	185
Less: accumulated amortization.....	(4,062)	(33,443)	(37,505)	(77,300)	(58)
Assets acquired under capital leases, net.....	\$ 5,579	\$ 74,007	\$ 79,586	\$ 12,800	\$ 127

For the primary government's fiscal year ended June 30, 2005, minimum rental payments under operating leases were \$72.120 million and contingent rental payments were \$8.584 million. The State's contingent rental payments are for copiers, with expense being determined on a cost-per-copy basis.

For the Public Service Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$5.800 million. For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$1.033 million. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$749 thousand.

At June 30, 2005, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) were as follows:

Fiscal Year Ending June 30	Primary Government	Component Unit Lottery Commission
2006	\$ 37,934	\$ 347
2007	33,673	71
2008	27,814	4
2009	21,360	—
2010	14,763	—
2011 - 2015	24,227	—
2016 - 2020	6,914	—
2021 - 2025	2,974	—
2026 - 2030	182	—
Total minimum payments.....	\$ 169,841	\$ 422

b. Facilities Leased to Others

At June 30, 2005, the State Ports Authority, a major discretely presented component unit, had leased to non-State parties certain land and facilities having a cost of approximately \$472.127 million and related accumulated depreciation of \$205.203 million. Future minimum rental payments to be received at June 30, 2005, under these operating leases (expressed in thousands) were as follows:

<u>Fiscal Year Ending June 30</u>	<u>State Ports Authority</u>
2006	\$ 4,563
2007	1,787
2008	980
2009	864
2010	569
2011 - 2015	2,435
2016 - 2020	1,611
2021 - 2025	608
2026 - 2030	500
2031 - 2035	417
Total.....	<u>\$ 14,334</u>

NOTE 12: BONDS AND NOTES PAYABLE

a. General Obligation Bonds

General obligation bonds are backed by the full faith, credit, and taxing power of the State. General obligation bonds (expressed in thousands) outstanding at June 30, 2005, were:

Governmental Activities	
Capital improvement bonds, 1.375% to 5.90%.....	\$ 801,626
State highway bonds, 2.00% to 6.50%.....	725,434
State school facilities bonds, 3.00% to 5.75%.....	611,126
Infrastructure Bank bonds, 3.00% to 5.00%.....	58,785
State economic development bonds, 2.75% to 6.40%...	101,282
Subtotal—governmental activities.....	<u>2,298,253</u>
Business-type Activities, Higher Education Fund	
State institution bonds, 2.50% to 6.25%.....	230,423
Total—general obligation bonds payable.....	<u>\$ 2,528,676</u>

At June 30, 2005, \$6.344 million of capital improvement bonds, \$162.660 million of State economic development bonds, and \$98.000 million of State research university infrastructure bonds were authorized but unissued.

At June 30, 2005, future debt service requirements (expressed in thousands) for general obligation bonds were:

Year Ending June 30	Governmental Activities		Business-type Activities (Higher Education Fund)	
	Principal	Interest	Principal	Interest
2006	\$ 186,744	\$ 99,097	\$ 13,075	\$ 9,827
2007	178,830	93,103	13,550	9,308
2008	185,650	85,394	13,455	8,726
2009	190,574	77,109	13,790	8,159
2010	172,780	68,417	13,650	7,581
2011-2015	821,760	227,110	75,360	28,846
2016-2020	456,860	70,434	64,775	12,373
2021-2025	90,115	8,990	23,880	1,826
2026-2030	15,080	1,152	—	—
Total debt service requirements.....	2,298,393	\$ 730,806	231,535	\$ 86,646
Unamortized premiums.....	18,133		73	
Deferred amount on refunding...	(18,273)		(1,185)	
Total principal outstanding.....	\$ 2,298,253		\$ 230,423	

The Department of Transportation Special Revenue Fund, a major governmental fund, pays the debt service for the State highway bonds. The Local Government Infrastructure Fund, a major governmental fund, pays the debt service for the Infrastructure Bank bonds. The General Fund pays the debt service for the other general obligation bonds recorded for governmental activities. The Higher Education Fund, a major enterprise fund, pays the debt service for general obligation bonds recorded in that fund.

Rather than directly limiting the amount of outstanding general obligation debt, State law imposes a limitation on annual debt service expenditures. The legal annual debt service margin at June 30, 2005, was \$34.771 million in total for all institution bonds, \$16.222 million for highway bonds, \$52.374 million for general obligation bonds excluding institution and highway bonds, and \$15.689 million for economic development bonds.

b. Limited Obligation Bonds

Limited obligation bonds are not backed by the full faith, credit, and taxing power of the State. Limited obligation bonds outstanding at June 30, 2005, which are reported in the internal service funds, totaled \$19.392 million. Interest rates on these bonds ranged from 4.00% to 6.10%.

At June 30, 2005, there were no limited obligation bonds authorized but unissued.

The State issued limited obligation lease revenue bonds to finance the cost of capital facilities for use by certain State agencies. Pledges of lease rental payments that the agencies will pay from their governmental funds secure the bonds.

At June 30, 2005, future debt service requirements (expressed in thousands) for limited obligation bonds were:

Year Ending June 30	Governmental Activities (Internal Service Funds)	
	Principal	Interest
2006	\$ 4,120	\$ 924
2007	4,320	725
2008	1,640	542
2009	1,730	465
2010	1,200	383
2011-2015	6,275	906
2016-2020	185	9
Total debt service requirements.....	19,470	\$ 3,954
Unamortized discounts.....	(78)	
Total principal outstanding.....	\$ 19,392	

The internal service funds pay all debt service for the lease revenue bonds.

c. Revenue, Tobacco Authority, Infrastructure Bank, and Other Bonds and Notes

Revenue debt is not backed by the full faith, credit, and taxing power of the State. Revenue, Tobacco Settlement Revenue Management Authority (Tobacco Authority), Infrastructure Bank, and other bonds and notes (expressed in thousands) outstanding at June 30, 2005, were:

	Bonds	Notes
Primary Government:		
Governmental Activities:		
Infrastructure Bank bonds, 3.00% to 6.00%.....	\$ 1,947,393	\$ —
Tobacco Authority bonds, 6.00% to 7.67%.....	820,905	—
Educational Television Network note, 3.29%.....	—	2,208
Judicial Department note, 3.98%.....	—	140
Education Department note, 3.29%.....	—	786
Corrections Department note, 3.34%.....	—	1,290
Budget and Control Board internal service fund bond and notes, 3.00% to 5.00%.....	23,521	5,887
Totals—governmental activities.....	2,791,819	10,311
Business-type Activities:		
Higher Education Fund bonds and notes, 3.00% to 7.375%.....	443,664	80,793
Housing Authority Fund bonds, 1.60% to 8.30%.....	631,228	—
Medical University Hospital Authority bonds, 2.18% to 6.50%.....	474,309	—
Education Assistance Authority Fund bonds, 3.50% to 6.30%.....	744,083	—
Nonmajor enterprise funds:		
Nonmajor enterprise fund bonds and notes, 1.54% to 7.50%.....	18,748	51,584
Direct note obligations, 5.82% to 6.82%.....	—	91,703
Totals—business-type activities.....	2,312,032	224,080
Totals—primary government.....	\$ 5,103,851	\$ 234,391
Major Discretely Presented Component Units:		
Public Service Authority bonds, 3.00% to 7.42%.....	\$ 2,666,809	\$ —
State Ports Authority bonds and notes, 2.45% to 5.50%.....	\$ 140,470	\$ 3,319
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%.....	\$ 264,444	\$ —
Lottery Commission notes, 8.00%.....	\$ —	\$ 2,217

During a prior fiscal year, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, entered into an interest rate swap agreement with a termination date of October 1, 2013 to reduce net interest costs on certain revenue bonds. Under this fixed-to-variable interest-rate swap, the Bank receives a fixed rate of 3.595% semi-annually while paying a variable rate monthly based on the BMA Municipal Bond Index. The notional amount for this agreement is \$49.440 million. Through June 30, 2005, the Bank had interest income of \$4.300 million and interest expense of \$1.625 million attributable to the agreement. During the fiscal year ended June 30, 2005, the Bank paid \$909 thousand in variable rate monthly payments and received \$1.777 million in fixed rate payments. The June 30, 2005, mark to market value of this swap was \$1.233 million. The Bank is exposed to credit risk and market risk.

During the prior fiscal year, the Transportation Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, entered into an interest rate exchange agreement with a termination date of October 1, 2031, to reduce net interest costs on certain revenue bonds. Under this variable-to-fixed interest rate exchange, the Bank pays a 3.825% fixed rate on a notional amount, having an amortization schedule equal to that of the revenue bonds. In return, the counterparties of the agreement pay the Bank a variable rate equal to 67.0% of the one-month London Interbank Offered Rate on such notional amount. For the fiscal year ended June 30, 2005, the Bank made variable bond interest payments of \$4.291 million and fixed rate payments on the exchange agreement of \$14.087 million. The Bank received variable swap payments on the exchange agreement of \$3.037 million. The June 30, 2005, mark to market value of this swap was a negative \$38.460 million.

University Medical Associates of the Medical University of South Carolina (UMA) is a blended component unit and nonmajor enterprise fund. UMA has issued several direct note obligations, select auction variable rate securities. In prior years, UMA entered into interest-rate swap agreements to modify interest rates on a portion of its Series 1994, and all of the 1999A and 1999B direct note obligations in an effort to convert its variable-rate debt to a fixed rate of 6.82% on the 1994 and 1999A obligations, and 5.82% on the 1999B obligations. These agreements were required by the municipal bond insurance company MBIA, at a time when UMA was experiencing operating losses. The note obligations and related swap agreements mature on May 15, 2024, for the 1994 and 1999A portions and May 15, 2027, for the 1999B portion. The notional amounts as of June 30, 2005, are as follows: Series 1994 obligations—\$9.050 million; Series 1999A obligations—\$35.700 million; and Series 1999B obligations—\$41.500 million. These amounts agree to the principal outstanding under the various issues except Series 1994, which has outstanding principal of \$10.400 million. Under the swap agreements, UMA pays the counterparty a fixed interest payment of 6.82% on the 1994 and 1999A obligations, and 5.82% on the 1999B obligations, and receives a variable payment based upon the auction rate every thirty-five days. The variable rates in effect at June 30, 2005, were 3.10% for the 1994 obligations, 2.97% for the 1999A obligations, and 3.08% for the 1999B obligations. On May 1, 2000, these swap agreements were amended to mitigate adverse income tax consequences to the counterparty should certain triggering events occur in the future, resulting in a payment to UMA of \$1.850 million for the remaining life of the agreements. UMA has recorded this amount in deferred revenue and is amortizing it as a reduction of interest expense over the terms of the related obligations on the straight-line method. For the fiscal year ended June 30, 2005, interest expense was reduced by amortization of approximately \$77 thousand. Interest rates have declined since execution of the swap agreements resulting in the swaps having negative fair values of approximately \$2.807 million on the 1994 obligations, \$10.485 million on the 1999A obligations, and \$9.224 million for the 1999B obligations as of June 30, 2005. The fair value was estimated using the zero-coupon method. UMA will be exposed to the risk of fluctuating interest rates of the variable-rate debt agreements if the swap agreements are terminated.

In a prior year, the Medical University Facilities Corporation, a blended component unit and nonmajor enterprise fund, entered into an interest-rate swap agreement to hedge its interest-rate exposure and establish a fixed-rate payment in connection with a \$13.500 million loan. The swap agreement provides that the Corporation will pay the swap provider interest on a notional amount equal to the aggregate principal amount of the loan at a fixed rate of 3.37%, and the swap provider will pay the Corporation a variable rate of interest on such notional amount in an amount sufficient to pay the variable rate of interest on the loan. The notional amount at June 30, 2005, was \$11.500 million, and the variable rate in effect at that date was 2.45%. The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal of the note is scheduled to be paid upon redemption or maturity. The loan and the related swap agreement mature on January 1, 2013. As of June 30, 2005, the swap had a negative fair value of approximately \$3 thousand. Termination of the agreement would subject the Corporation to the risk of fluctuating interest rates.

As of June 30, 2005, debt service requirements of the UMA and the Corporation variable rate debt and net swap payments (expressed in thousands), assuming current interest rates remain the same for their term, were as follows:

Year Ending June 30	Variable Rate Notes		Interest Rate Swaps, Net	Totals
	Principal	Interest		
2006	\$ 3,350	\$ 2,881	\$ 2,941	\$ 9,172
2007	3,445	2,785	2,854	9,084
2008	3,595	2,686	2,766	9,047
2009	4,045	2,582	2,670	9,297
2010	4,195	2,466	2,565	9,226
2011-2015	23,220	10,360	11,020	44,600
2016-2020	21,150	7,250	7,788	36,188
2021-2025	28,650	3,307	3,400	35,357
2026-2030	6,100	262	233	6,595
Totals.....	\$ 97,750	\$ 34,579	\$ 36,237	\$ 168,566

Certain revenue bonds require the individual business-type activities to provide sufficient revenue to pay debt service and to fund all necessary expenses of the activities. The funds that receive the proceeds of revenue, Tobacco Authority, Infrastructure Bank, and other bonds and notes have pledged revenues for payment of debt service as follows:

Primary Government:

Governmental Activities:

Infrastructure Bank bonds: Infrastructure Bank revenues recorded in the Local Government Infrastructure Fund, a major governmental fund

Tobacco Authority bonds: tobacco settlement revenues recorded in the nonmajor governmental funds

Corrections Department note: farm facility revenues

Budget and Control Board bonds: loan repayments

Business-type Activities:

Higher education bonds and notes: various specific higher education revenues

State Housing Authority bonds: revenues of the Housing Authority Fund, a major enterprise fund

Education Assistance Authority bonds: loan repayments and United States Commissioner of Education funds in the Education Assistance Authority Fund, a major enterprise fund

Major Discretely Presented Component Units:

Public Service Authority bonds: Public Service Authority revenues

State Ports Authority bonds: State Ports Authority revenues

Connector 2000 Association, Inc. bonds: toll revenues

Lottery Commission notes: lottery revenues

For its business-type activities, the State separately identifies amounts of pledged revenues available at June 30, 2005, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2005, future debt service requirements (expressed in thousands) for revenue, Tobacco Authority, Infrastructure Bank, and other bonds and notes of the primary government were as follows:

Year Ending June 30	Primary Government			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 40,999	\$ 146,657	\$ 113,160	\$ 102,348
2007	43,552	144,597	46,929	105,001
2008	52,390	142,297	82,311	102,227
2009	44,841	139,836	146,200	98,098
2010	46,935	137,524	116,018	94,064
2011-2015	358,999	636,490	372,900	420,735
2016-2020	475,005	525,176	366,177	335,557
2021-2025	586,860	381,084	700,770	225,410
2026-2030	741,560	206,701	293,891	115,583
2031 - 2035	395,670	38,404	293,244	51,699
2036 - 2040	—	—	15,145	545
Total debt service requirements.....	2,786,811	\$ 2,498,766	2,546,745	\$ 1,651,267
Unamortized premiums.....	51,828		13,591	
Deferred amount on refunding.....	(36,509)		(24,224)	
Total principal outstanding.....	\$ 2,802,130		\$ 2,536,112	

The fiscal year for the Public Service Authority ends December 31 while the fiscal year for the State Ports Authority ends June 30. Both entities are major discretely presented component units. At December 31, 2004, the carrying value of the Public Service Authority's debt was \$2.845 billion while the fair value was approximately \$3.200 billion. At June 30, 2005, the carrying value of the State Ports Authority debt was \$143.139 million while the fair value was approximately \$145.328 million. The fair values were estimated using current rates available to the entities for similar borrowing arrangements and on the market rate of comparable traded debt.

At June 30, 2005, future debt service requirements (expressed in thousands) for bonds and notes of the State's major discretely presented component units were as follows:

Year Ending December 31	Major Component Units			
	Public Service Authority		Connector 2000 Assoc.	
	Principal	Interest	Principal	Interest
2005	\$ 76,825	\$ 150,600	\$ —	\$ 3,532
2006	75,185	142,460	—	3,532
2007	71,260	138,505	—	3,532
2008	85,060	134,491	6,200	3,507
2009	80,535	130,219	42,500	16,775
2010 - 2014	517,765	572,138	67,200	15,213
2015 - 2019	711,999	415,041	99,600	13,211
2020 - 2024	672,651	209,127	135,800	10,605
2025 - 2029	181,010	113,631	177,500	7,149
2030 - 2034	216,515	63,127	217,300	2,661
2035 - 2039	141,710	12,746	—	—
Total debt service requirements.....	2,830,515	\$ 2,082,085	746,100	\$ 79,717
Unamortized premiums (discounts)...	68,890		(481,656)	
Deferred amount on refunding.....	(232,596)		—	
Total principal outstanding.....	\$ 2,666,809		\$ 264,444	

Year Ending June 30	Major Component Units			
	State Ports Authority		Lottery Commission	
	Principal	Interest	Principal	Interest
2006	\$ 3,470	\$ 6,808	\$ 1,104	\$ 129
2007	3,601	6,665	1,113	25
2008	3,778	6,478	—	—
2009	3,854	6,284	—	—
2010	4,050	6,083	—	—
2011 - 2015	23,106	26,981	—	—
2016 - 2020	28,220	20,497	—	—
2021 - 2025	36,365	12,357	—	—
2026 - 2030	36,560	1,539	—	—
Total debt service requirements.....	143,004	\$ 93,692	2,217	\$ 154
Unamortized premium.....	785		—	
Total principal outstanding.....	\$ 143,789		\$ 2,217	

Borrowing is essential to the continuation of programs associated with certain entities reported within the primary government's governmental activities. The primary government reported interest expense during the fiscal year ended June 30, 2005, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government.....	\$ 54,259
Transportation.....	136,782
Total allocated interest expense.....	\$ 191,041

The amount shown above in the general government function relates to bonds that a blended component unit issued.

d. Bond Anticipation Notes

At June 30, 2005, \$9.345 million in short-term revenue bond anticipation notes were outstanding in the Higher Education Fund, a major enterprise fund. These notes are due on or before June 30, 2006.

e. Defeased Bonds

During April 2005, the State issued \$85.215 million in general obligation State capital improvement refunding bonds with an average interest rate of 4.04% to refund \$81.310 million of general obligation State capital improvement bonds with an average interest rate of 5.30%. The net proceeds of \$86.313 million, including \$2.017 million in premiums (after payment of \$919 thousand in issuance costs and other allocations), were used to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$5.003 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next eleven years by approximately \$2.396 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$2.136 million.

Also during April 2005, the State issued \$63.000 million in general obligation State school facilities refunding bonds with an average interest rate of 4.58% to refund \$59.515 million of general obligation State school facilities bonds with an average interest rate of 5.75%. The net proceeds of \$65.951 million, including \$3.861 million in premiums (after payment of \$910 thousand in issuance costs and other allocations), were used to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$6.436 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2013 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next eight years by approximately \$1.657 million and to obtain an economic gain of approximately \$2.281 million.

During September 2004, the Infrastructure Bank, included in the Local Government Infrastructure major governmental fund, issued \$153.450 million in Infrastructure Bank revenue refunding bonds with a premium of \$20.427 million to refund \$158.225 million of Infrastructure Bank revenue bonds. The Bank used net proceeds of \$172.092 million (after payment of \$1.785 million in issuance costs), plus an additional \$1.698 million in excess debt service reserve fund monies to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15.565 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2011 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next twenty-six years by approximately \$12.000 million and to obtain an economic gain of approximately \$8.000 million.

During April 2005, the Department of Transportation Special Revenue Fund, a major governmental fund, issued \$146.495 million in State highway refunding bonds of which \$6.495 million was used to refund \$6.500 million of State highway revenue bonds. The Bank used the \$6.495 million plus \$252 thousand of the premium received on the issue to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$247 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2010 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next five years by approximately \$272 thousand and to obtain an economic gain of approximately \$255 thousand.

During April 2005, the Medical University of South Carolina, included in the Higher Education major enterprise fund, issued \$19.045 million in general obligation State institution refunding bonds to refund \$17.845 million in general obligation State institution bonds. The net proceeds (after payment of \$163 thousand in issuance costs) were deposited in an irrevocable trust with an escrow agent. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.205 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020. The University completed the advance refunding to reduce its total debt service payments over the next fifteen years by approximately \$828 thousand and to obtain an economic gain of \$636 thousand.

During January 2005, The Citadel, a military college included in the Higher Education major enterprise fund, issued \$26.525 million in athletic facilities revenue bonds to refund \$9.745 million of revenue bonds and to partially fund the construction of a new barracks. The Citadel used net proceeds of \$10.351 million (after payment of \$356 thousand in issuance costs) to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$606 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2013 on a straight-line basis. The bonds were refunded to reduce total debt service payments over the next twelve years by approximately \$755 thousand and to obtain an economic gain of approximately \$601 thousand.

During December 2004, the Medical University Hospital Authority, a major enterprise fund, issued a total of \$422.060 million of FHA Insured Mortgage Hospital Facilities and Refunding Revenue Bonds at a premium of \$11.445 million. The net bond proceeds as well as monies from a trust account were used to defease all amounts outstanding under the prior Series 2002A bonds, pay off a promissory note, and fund construction of new replacement hospital facilities. The advance refunding resulted in a difference between the reacquisition price and the net carrying

amount of the old debt of \$15.475 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2032 using the interest method. The Authority reduced its total debt service payments by approximately \$53.069 million and obtained an economic gain of \$107 thousand.

During August 2004, the Education Assistance Authority, a major enterprise fund, issued \$174.700 million in Guaranteed Student Loan Revenue and Refunding Bonds with an auction interest rate varying up to 12.00% to advance refund \$3.000 million in Revenue Bonds with an average interest rate of 5.20% and to provide financing for student loans. The Authority used net proceeds of \$3.000 million (after payment of \$896 thousand for issuance costs, \$1.747 million for special deposits, and \$169.057 million for the purchase of new student loans) to purchase United States government securities. The advance refunding resulted in no difference between the reacquisition price and the net carrying amount of the old debt. The Authority completed the refunding to gain flexibilities that the 2002 bond resolution provided. The refunding increases the Authority's total debt payments by approximately \$450 thousand over the next seven years and results in an economic loss of approximately \$17 thousand.

For all defeasances involving advance refundings in the current and prior years, the securities purchased were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the State has not recorded the defeased bonds in the accompanying financial statements. At June 30, 2005, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

	Governmental Activities	Business- type Activities	Totals— Primary Government
Capital improvement bonds.....	\$ 62,610	\$ —	\$ 62,610
State highway bonds.....	46,175	—	46,175
State school facilities bonds.....	59,515	—	59,515
Infrastructure Bank bonds.....	496,340	—	496,340
Higher Education Fund bonds..	—	207,159	207,159
Totals.....	\$ 664,640	\$ 207,159	\$ 871,799

In addition, at December 31, 2004, \$12.345 million of bonds associated with the Public Service Authority, a major discretely presented component unit, were considered defeased.

f. Arbitrage Rebate Payable

The Internal Revenue Code and arbitrage regulations issued by the Internal Revenue Service require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. The Local Government Infrastructure Fund (a major governmental fund), and the Education Assistance Authority Fund (a major enterprise fund) have incurred arbitrage rebate liabilities in connection with student loan and revenue bonds sold in previous years. Arbitrage rebates payable at June 30, 2005, are reported as other liabilities of \$187 thousand in the Local Government Infrastructure Fund, and as other liabilities payable from restricted assets of \$10.464 million and other liabilities of \$424 thousand in the Education Assistance Authority Fund.

g. Conduit Debt

State law authorizes issuance of certain bonds for which the State assumes no responsibility for repayment. These bonds, therefore, do not appear as liabilities in the accompanying financial statements.

The Educational Facilities Authority, reported in the General Fund, issues bonds to assist nonprofit educational institutions that do not receive State appropriations in the acquisition, construction, and financing of facilities for educational programs. The bonds are payable solely from, and secured by, a lease agreement on the facilities between the Authority and the institution. When the bonds have been fully paid, the Authority conveys the title for the facility to the institution. At June 30, 2005, the outstanding balance of bonds issued was \$225.147 million.

The Jobs-Economic Development Authority, a nonmajor governmental fund, issues industrial revenue bonds to develop and benefit business enterprises. The bonds are payable solely by revenues of the business enterprise and generally are secured by an irrevocable letter of credit. At June 30, 2005, the outstanding balance of bonds issued after June 30, 1995, was \$2.434 billion. The original amount of bonds issued prior to that date is not available.

The Housing Authority Fund, a major enterprise fund, issues certain mortgage loan notes and housing revenue bonds for developers to construct moderate to low income housing projects. The bonds are payable solely from housing rental payments received by the developer and generally are secured by an irrevocable letter of credit or bond insurance. At June 30, 2005, the outstanding balance of bonds issued was \$235.250 million.

h. Resources Authority Debt

In prior years, the Resources Authority, reported in the General Fund, issued bonds and used the proceeds to purchase obligations of local governmental entities. The local governmental entities used the proceeds received from the Authority to fund water and sewer projects. Periodic principal and interest payments received from the local governmental entities are used by the Authority to retire its own debt. The debt issued by the Authority is not a debt of the State and is not recorded in the accompanying financial statements. The Authority's outstanding debt at June 30, 2005, was \$3.440 million. Effective October 1994, the General Assembly enacted legislation that prohibits the Authority from issuing bonds except to refund bonds previously issued.

Beginning in fiscal year 1993-1994, one local governmental entity has been unable to meet its financial obligation under the terms of a \$5.025 million revenue bond that the Authority purchased. In June 1990, when the local governmental entity issued its debt, it estimated that the related sewer project would be completed and operational by calendar year 1992. Revenue generated by the sewer system is pledged for debt retirement. The State paid a total of \$4.247 million in the 1993-1994 through 2003-2004 fiscal years, and \$420 thousand in the 2004-2005 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity. The State has appropriated \$400 thousand in the 2005-2006 fiscal year for use, if needed, to offset the loss of revenues from the delinquent local entity.

i. Commercial Paper Notes and Letters of Credit

Note 13 Changes in Liabilities, displays the activity of commercial paper notes and lines of credit during the fiscal year ended June 30, 2005, including beginning and ending balances (if any) as well as all draws and repayments. The Public Service Authority presents its outstanding amounts as commercial paper notes, but all other amounts outstanding on lines of credit at June 30, 2005, are reported as notes payable. Other relevant information regarding these accounts is provided below.

The University Medical Associates of the Medical University of South Carolina, a blended component unit and nonmajor enterprise fund, has two lines of credit with financial institutions with maximum borrowing limits of \$11.500 million and \$6.000 million.

The Public Service Authority, a discretely presented component unit, has recorded a \$193.317 million liability for commercial paper notes at its fiscal year ended December 31, 2004. The paper is issued for valid corporate purposes with terms not to exceed 270 days. The Authority has a \$450.000 million revolving credit agreement to support the issuance of commercial paper.

The Ports Authority, a discretely presented component unit, has a \$10.000 million revolving line of credit from a commercial bank.

j. Subsequent Events

Since June 30, 2005, the State has issued bonds and notes as indicated in the table below (expressed in thousands).

<u>Primary Government</u>		
Description	Governmental Activities	Business-type Activities
General obligation bonds.....	\$ 208,125	\$ 18,275
Revenue bonds.....	231,000	50,000
Revenue notes.....	—	41,450
Totals.....	<u>\$ 439,125</u>	<u>\$ 109,725</u>
 <u>Component Unit</u>		
Description	Revenue Bonds	
Public Service Authority.....	<u>\$ 496,817</u>	

Of the total revenue bonds that the primary government issued, \$231.000 million of the governmental activities bonds and \$50.000 million of the business-type activities bonds were to refund prior issues. Of the total revenue bonds issued by the Public Service Authority, a major discretely presented component unit, \$481.450 million were to refund prior issues.

NOTE 13: CHANGES IN LIABILITIES**a. Long-Term Liabilities**

Changes in major classes of long-term liabilities (expressed in thousands) for the fiscal year ended June 30, 2005, were:

	Balances at July 1, 2004	Increases	Decreases	Balances at June 30, 2005	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims.....	\$ 531,645	\$ 1,274,698	\$ (1,234,458)	\$ 571,885	\$ 486,502
Notes payable.....	\$ 8,884	\$ 2,940	\$ (1,513)	\$ 10,311	\$ 1,799
General obligation bonds payable.....	\$ 2,264,441	\$ 369,590	\$ (335,638)	\$ 2,298,393	\$ 186,744
Unamortized discounts and premiums.....	12,569	6,220	(656)	18,133	—
Deferred amount on refunding.....	(10,749)	(11,685)	4,161	(18,273)	—
Total general obligation bonds payable....	\$ 2,266,261	\$ 364,125	\$ (332,133)	\$ 2,298,253	\$ 186,744
Tobacco Authority bonds payable.....	\$ 845,630	\$ —	\$ (24,725)	\$ 820,905	\$ —
Revenue bonds payable.....	\$ 23,565	\$ —	\$ (1,190)	\$ 22,375	\$ 1,260
Unamortized discounts and premiums.....	1,237	—	(91)	1,146	—
Total revenue bonds payable.....	\$ 24,802	\$ —	\$ (1,281)	\$ 23,521	\$ 1,260
Infrastructure Bank bonds payable.....	\$ 1,736,910	\$ 382,390	\$ (186,080)	\$ 1,933,220	\$ 37,940
Unamortized discounts and premiums.....	15,711	35,005	(34)	50,682	—
Deferred amount on refunding.....	(27,107)	(15,565)	6,163	(36,509)	—
Total Infrastructure Bank bonds payable..	\$ 1,725,514	\$ 401,830	\$ (179,951)	\$ 1,947,393	\$ 37,940
Limited obligation bonds payable.....	\$ 23,400	\$ —	\$ (3,930)	\$ 19,470	\$ 4,120
Unamortized discounts and premiums.....	(96)	—	18	(78)	—
Total limited obligation bonds payable....	\$ 23,304	\$ —	\$ (3,912)	\$ 19,392	\$ 4,120
Capital leases payable.....	\$ 3,256	\$ 700	\$ (1,100)	\$ 2,856	\$ 1,123
Compensated absences payable.....	\$ 194,191	\$ 118,974	\$ (112,561)	\$ 200,604	\$ 128,490
National Guard Pension System net pension obligation payable.....	\$ 8,132	\$ 846	\$ —	\$ 8,978	\$ —
Judgments and contingencies payable.....	\$ 71,260	\$ —	\$ (18,794)	\$ 52,466	\$ 15,266
Arbitrage payable.....	\$ 123	\$ 66	\$ (2)	\$ 187	\$ —

The National Guard Pension System net pension obligation payable, judgments and contingencies payable, and arbitrage payable are included in *other liabilities* in the accompanying financial statements.

The governmental fund that pays an employee's salary also is responsible for liquidating the employee's related compensated absence liability. The General Fund is responsible for liquidating the National Guard Pension System liability. Historically, the State has paid most judgments related to governmental funds from its General Fund unless an identifiable amount was directly attributable to another specific fund.

	Balances at July 1, 2004	Increases	Decreases	Balances at June 30, 2005	Amounts Due Within One Year
Primary Government:					
Business-type Activities					
Policy claims.....	\$ 203,600	\$ 46,552	\$ (39,785)	\$ 210,367	\$ 38,500
Notes payable.....	\$ 194,669	\$ 53,675	\$ (23,416)	\$ 224,928	\$ 17,744
Deferred amount on refunding.....	(996)	—	50	(946)	—
Unamortized discounts and premiums.....	103	—	(5)	98	—
Total notes payable.....	\$ 193,776	\$ 53,675	\$ (23,371)	\$ 224,080	\$ 17,744
General obligation bonds payable.....	\$ 242,650	\$ 19,045	\$ (30,160)	\$ 231,535	\$ 13,075
Deferred amount on refunding.....	—	(1,205)	20	(1,185)	—
Unamortized discounts and premiums.....	90	(13)	(4)	73	—
Total general obligation bonds payable....	\$ 242,740	\$ 17,827	\$ (30,144)	\$ 230,423	\$ 13,075
Revenue bonds payable.....	\$ 1,551,800	\$ 986,195	\$ (216,178)	\$ 2,321,817	\$ 95,416
Deferred amount on refunding.....	(7,136)	(23,697)	7,555	(23,278)	—
Unamortized discounts and premiums.....	(1,836)	14,249	1,080	13,493	—
Total revenue bonds payable.....	\$ 1,542,828	\$ 976,747	\$ (207,543)	\$ 2,312,032	\$ 95,416
Capital leases payable.....	\$ 54,585	\$ 20,194	\$ (22,224)	\$ 52,555	\$ 10,455
Compensated absences payable.....	\$ 102,205	\$ 74,324	\$ (66,351)	\$ 110,178	\$ 60,378
Arbitrage payable.....	\$ 13,068	\$ —	\$ (2,180)	\$ 10,888	\$ 344

	Balances at January 1, 2004	Increases	Decreases	Balances at December 31, 2004	Amounts Due Within One Year
Major Component Units:					
Public Service Authority					
Policy claims.....	\$ 2,228	\$ 2,282	\$ (2,135)	\$ 2,375	\$ 2,375
Revenue bonds payable.....	\$ 2,421,170	\$ 480,615	\$ (71,270)	\$ 2,830,515	\$ 76,825
Deferred amount on refunding.....	(252,850)	—	20,254	(232,596)	—
Unamortized discounts and premiums.....	44,740	30,107	(5,957)	68,890	—
Total revenue bonds payable.....	\$ 2,213,060	\$ 510,722	\$ (56,973)	\$ 2,666,809	\$ 76,825
Capital leases payable.....	\$ 21,515	\$ —	\$ (6,586)	\$ 14,929	\$ 2,771
Compensated absences payable.....	\$ 13,370	\$ 1,842	\$ (1,345)	\$ 13,867	\$ —

Connector 2000 Association, Inc.

Revenue bonds payable.....	\$ 746,100	\$ —	\$ —	\$ 746,100	\$ —
Unamortized discounts and premiums.....	(493,059)	—	11,403	(481,656)	—
Total revenue bonds payable.....	\$ 253,041	\$ —	\$ 11,403	\$ 264,444	\$ —

	Balances at July 1, 2004	Increases	Decreases	Balances at June 30, 2005	Amounts Due Within One Year
State Ports Authority					
Notes payable.....	\$ 7,494	\$ —	\$ (4,175)	\$ 3,319	\$ 445
Revenue bonds payable.....	\$ 142,590	\$ —	\$ (2,905)	\$ 139,685	\$ 3,025
Unamortized discounts and premiums.....	830	—	(45)	785	—
Total revenue bonds payable.....	\$ 143,420	\$ —	\$ (2,950)	\$ 140,470	\$ 3,025
Capital leases payable.....	\$ 132	\$ 44	\$ (41)	\$ 135	\$ 37
Compensated absences payable.....	\$ 2,032	\$ 2,188	\$ (2,217)	\$ 2,003	\$ 2,003
Lottery Commission					
Notes payable.....	\$ 3,450	\$ —	\$ (1,233)	\$ 2,217	\$ 1,104
Compensated absences payable.....	\$ 850	\$ 500	\$ (496)	\$ 854	\$ 58

b. Short-Term Debt

The State's Higher Education Fund may issue Bond Anticipation Notes (BANS) to provide interim financing for capital projects while in the process of issuing bonds. The Public Service Authority, a major discretely presented component unit, may issue commercial paper as short-term financing for valid corporate purposes as allowed by the Authority's Board of Directors. Short-term debt for the fiscal year ended June 30, 2005, included: BANS in the Higher Education Fund, a major enterprise fund; commercial paper notes in the Public Service Authority; and letters of credit in the nonmajor enterprise funds. Short-term debt activity during the fiscal year (expressed in thousands) was as follows:

	Balances at July 1, 2004	Increases	Decreases	Balances at June 30, 2005
Primary Government:				
Business-type Activities				
Revenue bond anticipation notes payable.....	\$ 44,310	\$ 9,345	\$ (44,310)	\$ 9,345
Notes payable (letters of credit).....	\$ 13,500	\$ —	\$ (13,500)	\$ —
Major Component Unit:				
Public Service Authority				
Commercial paper notes.....	\$ 345,050	\$ 31,869	\$ (183,602)	\$ 193,317

NOTE 14: RESERVATIONS AND DESIGNATIONS OF FUND BALANCES IN GOVERNMENTAL FUNDS

Reserved components of fund balances represent amounts in governmental funds that are legally segregated or that the State cannot appropriate. Designated portions of unreserved fund balances reflect tentative plans for future use of available financial resources.

The unreserved component of fund balance equals the total fund balance less reserved amounts.

At June 30, 2005, the following amounts of fund balance in governmental funds (expressed in thousands) were reserved:

	General	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue	Nonmajor Governmental Funds	Governmental Funds
Fund balances reserved for:						
General reserve fund.....	\$ 75,155	\$ —	\$ —	\$ —	\$ —	\$ 75,155
Interfund receivables.....	3,361	—	260,484	—	3,805	267,650
Appropriations to be carried forward	58,983	—	—	—	—	58,983
Endowments	—	—	—	—	2,081	2,081
Long-term loans and notes receivable	14	578	366,366	7,579	16,794	391,331
Debt requirements.....	—	—	1,132,921	—	150,895	1,283,816
School building aid	5,149	—	—	—	758	5,907
Total reserved fund balances.....	\$ 142,662	\$ 578	\$ 1,759,771	\$ 7,579	\$ 174,333	\$ 2,084,923

The following subsections contain further descriptive information regarding the reserved and designated components of fund balance.

a. Reserved

General Reserve Fund

The South Carolina Constitution requires that the State maintain a reserve to prevent deficits in the Budgetary General Fund. The reserve is fully funded whenever it equals three percent of the Budgetary General Fund's revenue (budgetary basis) of the previous fiscal year.

If the State withdraws funds from the reserve to cover a year-end deficit, it must replace the funds within three years. The Constitution requires that at least one percent of the Budgetary General Fund revenue (budgetary basis) of the latest completed fiscal year, if so much is necessary, be restored each year following the deficit until full funding is achieved.

At June 30, 2005, the Reserve's balance was \$75.155 million. In accordance with the 2005-2006 Appropriation Act, the State added \$78.333 million to the Reserve in September 2005 to fully fund the Reserve's balance to \$153.488 million.

Reserved for Interfund Receivables and Reserved for Long-Term Loans and Notes Receivable

Long-term loans and notes receivable and long-term interfund receivables are assets that do not represent expendable available resources. Governmental funds, therefore, reserve a corresponding portion of fund balance.

Reserved for Appropriations to be Carried Forward

The General Fund does not use encumbrance accounting. It uses the reserve for appropriations to be carried forward, however, if the General Assembly has authorized the carry-forward of General Fund appropriations to the next fiscal year.

Reserved for Endowments

This reserve recognizes restrictions on donated resources.

Reserved for Debt Requirements

When financing agreements or bond indentures require a reservation, the State records an amount as reserved for debt requirements.

Reserved for School Building Aid

If the State promises to pay a school district to build school buildings or to retire debt on such buildings, it records an amount as reserved for school building aid. The State has recorded such amounts, which are not available for appropriation, in its General Fund and its nonmajor governmental funds.

b. Designated, Reported in the General Fund

Of the total designated amount reported on the governmental funds balance sheet for the General Fund, \$99.356 million was designated by the General Assembly to be used in fiscal year 2005-2006 for specific capital projects.

At June 30, 2005, the State had tentative plans to use \$286.777 million of the fund balance in its Budgetary General Fund to allow the State to pay for selected recurring and nonrecurring items. Of that amount, only \$246.081 million in net financial resources were available in the General Fund and were designated at June 30, 2005, to finance these tentative plans.

c. Designated, Reported in Special Revenue Funds

The total designated amount reported on the governmental funds balance sheet for nonmajor special revenue funds is designated for scholarships. The amount is for the Teacher Loan Program, reported within the nonmajor governmental funds. This program makes loans to students. The State cancels 20.0% to 33.0% of the loan for each year that the borrower teaches in a critical-need area. Borrowers who do not teach in such an area, however, must repay their loans.

d. Designated, Reported in the Capital Projects Fund

The total designated amount reported on the governmental funds balance sheet for the State's Capital Projects Fund, a nonmajor governmental fund, is designated for capital expenditures.

NOTE 15: INTERFUND BALANCES AND TRANSFERS

The following tables summarize interfund balances at June 30, 2005 (expressed in thousands):

Description	Due To/From
Receivable fund: General	
Payable funds:	
Departmental General Operating.....	\$ 45,329
Unemployment Compensation.....	4,998
Internal service.....	449
Other.....	662
Receivable fund: Departmental General Operating	
Payable funds:	
General.....	377
Department of Transportation Special Revenue.....	102
Internal service.....	209
Other.....	7,071
Receivable fund: Local Government Infrastructure	
Payable funds:	
General.....	7,340
Department of Transportation Special Revenue.....	3,453
Receivable fund: Department of Transportation	
Special Revenue Fund	
Payable funds:	
General.....	771
Internal service.....	107

Description	Due To/From
Receivable fund: Higher Education	
Payable funds:	
General.....	\$ 2,761
Departmental General Operating.....	4,558
Department of Transportation Special Revenue.....	158
Hospital Authority.....	12,727
Internal service.....	11
Other.....	5,275
Receivable fund: Unemployment Compensation	
Payable funds:	
General	8
Departmental General Operating.....	4
Department of Transportation Special Revenue.....	9
Higher Education.....	3
Receivable funds: Internal Service	
Payable funds:	
General.....	7,562
Departmental General Operating.....	2,727
Local Government Infrastructure.....	2
Department of Transportation Special Revenue.....	154
Higher Education.....	2,596
Housing Authority.....	27
Internal service.....	172
Fiduciary.....	27,620
Other.....	1,170
Receivable funds: Fiduciary	
Payable funds:	
General.....	30,755
Departmental General Operating.....	14,874
Local Government Infrastructure.....	36
Department of Transportation Special Revenue.....	12,387
Higher Education.....	5,124
Internal service.....	1,534
Fiduciary.....	1,736
Other.....	852
Receivable funds: Other	
Payable Funds:	
General.....	5,434
Departmental General Operating.....	1,780
Department of Transportation Special Revenue.....	11
Higher Education.....	8,419
Hospital Authority.....	682
Internal service.....	12
Other.....	1,879
Totals.....	\$ 223,927

Amounts due from/to funds resulted from interfund goods and services provided or reimbursable expenditures/expenses incurred on or before June 30 for which payment was received/made after June 30.

Description	Interfund Receivables Payables	Long-term Portion
Receivable fund: General		
Payable funds:		
Departmental General Operating.....	\$ 1,380	\$ —
Higher Education.....	723	609
Internal service.....	3,559	2,752
Receivable fund: Departmental General Operating		
Payable funds:		
Higher Education.....	400	—
Other.....	180	—
Receivable fund: Local Government Infrastructure		
Payable fund: Department of Transportation Special Revenue	286,084	260,484
Receivable funds: Internal Service		
Payable funds:		
Departmental General Operating.....	3,000	3,000
Local Government Infrastructure.....	3,500	—
Internal service.....	822	732
Other.....	36,966	35,415
Receivable funds: Other		
Payable Funds:		
Departmental General Operating.....	241	217
Higher Education.....	44,732	2,815
Internal service.....	1,213	1,001
Other.....	88	69
Totals.....	\$ 382,888	\$ 307,094

The preceding interfund receivables and payables generally include loans for building improvements, economic development initiatives, and initial funding for new programs. Additional balances include the following:

- \$286.084 million owed by the Department of Transportation Special Revenue Fund, a major governmental fund, to the Local Government Infrastructure Fund, a major governmental fund. The Department of Transportation has entered into various agreements to provide assistance for highway and transportation facilities projects being constructed by the Local Government Infrastructure Fund.
- \$14.399 million owed by the nonmajor enterprise funds to the internal service funds. The nonmajor enterprise funds lent the money received to a county for infrastructure within a residential development.
- \$22.375 million owed by the nonmajor governmental funds to the internal service funds. The nonmajor governmental funds borrowed the money to purchase and renovate new headquarters facilities for the State Department of Public Safety.
- \$41.877 million owed by the Medical University of South Carolina reported within the Higher Education Fund, a major enterprise fund, to the nonmajor enterprise funds, in relation to internal leasing arrangements.

State of South Carolina

The following table summarizes interfund transfers during the fiscal year ended June 30, 2005 (expressed in thousands):

<u>Description/Fund(s)</u>	<u>Transfers From/To</u>
Transfers from the General Fund:	
Transfers to:	
Departmental General Operating.....	\$ 83,701
Local Government Infrastructure.....	1,064
DOT Special Revenue.....	109
Higher Education.....	692,988
Unemployment Compensation.....	30
Internal service.....	1,010
Fiduciary.....	2,046
Other.....	7,707
Transfers from Departmental General Operating	
Transfers to:	
General.....	10,612
Higher Education.....	594
Internal service.....	1,520
Other.....	8,776
Transfers from Local Government Infrastructure	
Transfers to:	
Departmental General Operating.....	21
Transfers from Department of Transportation Special Revenue	
Transfers to:	
General.....	4,940
Departmental General Operating.....	651
Other.....	49
Transfers from State Tobacco Settlement	
Transfers to:	
Departmental General Operating.....	1
Local Government Infrastructure.....	2,407
Transfers from Higher Education	
Transfers to:	
Departmental General Operating.....	19,935
Internal service.....	32
Other.....	2,842
Transfer from Unemployment Compensation	
Transfer to General.....	1,102
Transfer from Housing Authority	
Transfer to Other.....	300
Transfer from MUSC Hospital Authority	
Transfers to:	
Higher Education.....	11,189
Transfer from Internal Service	
Transfers to:	
General.....	6
Departmental General Operating.....	8,653
Higher Education.....	32
Internal service.....	210
Other.....	1,501
Transfers from Other	
Transfers to:	
General.....	2,021
Departmental General Operating.....	34,431
Department of Transportation Special Revenue.....	7,658
Higher Education.....	63,272
Housing Authority.....	300
Internal service.....	645
Other.....	7,983
Totals.....	\$ 980,338

The State uses transfers to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move State grant monies from grantor funds to grantee funds, and (3) transfer bond proceeds from the capital projects fund to other funds authorized to execute the projects. During the fiscal year ended June 30, 2005, the significant transfers (i.e., \$5.000 million or more) that occurred were all routine or consistent with the normal activities of the fund making the transfer.

NOTE 16: REVENUES AND EXPENDITURES OR EXPENSES

a. Proprietary Fund Revenues—Allowances and Discounts

In the financial statements, the State presents its revenues net of allowances for uncollectible accounts receivable and contractual adjustments. Note 5 reports these allowances.

Scholarship allowances in the Higher Education Fund represent the sum of differences between stated charges for goods and services provided to students and amounts billed to students and/or third parties making payments on behalf of students. For the fiscal year ended June 30, 2005, scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	Scholarship Allowances
Charges for services.....	\$ 267,899
Operating revenues pledged for revenue bonds.....	20,421
Other operating revenues.....	16,676
Total	\$ 304,996

For the fiscal year ended June 30, 2005, the State's enterprise funds presented \$797.922 million included in net charges for services after provisions for contractual and other adjustments in the amount of \$706.650 million and uncollectible accounts in the amount of \$90.291 million.

b. Extraordinary Item

Extraordinary items generally are transactions or other events that are both unusual in nature and infrequent in occurrence. However, generally accepted accounting principles require that the State report any gains or losses on the early extinguishment of debt, other than refundings, in its proprietary funds as extraordinary even if they do not meet the preceding description.

The State recorded the following extraordinary item in both its government-wide and fund financial statements for the fiscal year ended June 30, 2005.

The \$556 thousand extraordinary loss on early extinguishment of debt in the Housing Authority Fund, a major enterprise fund, resulted from the early redemption of bonds (\$163 thousand from writing off unamortized discounts and \$393 thousand from writing off unamortized bond issuance costs).

NOTE 17: DONOR-RESTRICTED ENDOWMENTS AND PLEDGES

a. Donor-Restricted Endowments

The State's permanent funds (nonmajor governmental funds) and the Higher Education Fund, a major enterprise fund, maintain donor-restricted endowments. Net appreciation consists of realized and unrealized increases in the fair value of an endowment's assets over the historic dollar value of the assets.

At June 30, 2005, \$8.991 million of the amount reported as *restricted net assets, expendable for education*, represented net appreciation on investments of donor-restricted endowments available for authorization for expenditure by governing boards of the higher education institutions. In addition, \$183 thousand of the amount reported as *restricted net assets, expendable for other*, represented net appreciation on investments of donor-restricted endowments of permanent funds.

The South Carolina Uniform Management of Institutional Funds Act (Title 34, Chapter 6, of the South Carolina Code of Laws, which is referred to below as "the Act") permits an agency's/institution's governing board to authorize for expenditure all of an endowment's net appreciation, unless the applicable gift instrument indicates the donor's intention that net appreciation not be expended. The Act requires, however, that the authorized expenditure be limited to the uses and purposes for which the endowment was established and that the institution's governing board exercise ordinary business care and prudence in authorizing the expenditure of net appreciation.

Specific policies for authorizing and spending endowment investment income vary among the agencies and institutions that hold endowments. Generally, the governing boards establish these policies. Among those agencies/institutions that recorded investment income in donor-restricted endowments during the fiscal year ended June 30, 2005, the predominant policy was to authorize the spending of 4.75% to 6.00% of the fair value of total endowment assets annually.

b. Pledges

The State's Higher Education Fund, a major enterprise fund, and related blended component units reported as nonmajor enterprise funds, recognize receivables and revenues for pledges or promises of cash or other assets from nongovernmental entities when all eligibility requirements are met, provided that the promise is verifiable and the resources are measurable and probable of collection. The financial statements report these amounts as accounts receivable. However, various benefactors have established split interest agreements with The Citadel Trust, Inc., a nonmajor enterprise fund. Among these agreements are a charitable remainder uni-trust and a charitable remainder trust. The Citadel, a higher education institution reported in the Higher Education Fund, will receive a specified portion of the assets remaining under these agreements at the benefactors' deaths. The parties who manage the assets associated with these agreements are not included within the State of South Carolina's financial reporting entity. The State's financial statements do not report these trust assets because the ultimate amounts that the State will receive were not deemed to be measurable at June 30, 2005, and the eligibility requirements for the gifts have not been met.

NOTE 18: SEGMENT INFORMATION

The Housing Authority provides low-cost housing to the State's citizens by issuing bonds/notes and by administering federal contracts and grants. The State issues various separate revenue bonds to finance activities within the Single Family Finance program of its Housing Authority Fund, a major enterprise fund. Covenants of the following revenue bonds within the Single Family Finance program require separate accounting and financial reporting: (a) Single Family, (b) Home Ownership, and (c) Mortgage Revenue. Investors in these bonds rely solely on the revenue generated by the individual activities for repayment. Accordingly, condensed financial statements (expressed in thousands) for these segments for the fiscal year ended June 30, 2005, are presented below:

CONDENSED STATEMENT OF NET ASSETS

	Single Family	Mortgage Revenue
Assets		
Current restricted assets.....	\$ 9,616	\$ 39,236
Other current assets.....	10,887	31,814
Noncurrent restricted assets.....	209,006	526,041
Other assets.....	882	4,340
Total assets.....	<u>230,391</u>	<u>601,431</u>
Liabilities		
Current liabilities payable from restricted assets.....	9,616	39,236
Noncurrent liabilities.....	108,130	494,510
Total liabilities.....	<u>117,746</u>	<u>533,746</u>
Net assets		
Restricted and expendable for:		
Debt service.....	2,795	35,477
Bond reserves.....	3,209	8,536
Special programs.....	106,641	23,671
Total net assets.....	<u><u>\$ 112,645</u></u>	<u><u>\$ 67,684</u></u>

**CONDENSED STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS**

	Single Family	Home Ownership	Mortgage Revenue
Operating revenues:			
Pledged revenues:			
Interest on loans.....	\$ 7,435	\$ 502	\$ 23,417
Income on deposit.....	1,194	140	6,215
Other revenues:			
Bond premium amortization.....	38	—	59
Total operating revenues.....	<u>8,667</u>	<u>642</u>	<u>29,691</u>
Operating expenses:			
Bond issuance cost amortization.....	41	1	230
Other operating expenses.....	5,782	351	26,294
Total operating expenses.....	<u>5,823</u>	<u>352</u>	<u>26,524</u>
Operating income.....	<u>2,844</u>	<u>290</u>	<u>3,167</u>
Loss on early extinguishment of debt (extraordinary item).....	<u>—</u>	<u>(17)</u>	<u>(354)</u>
Transfers:			
Transfers in.....	—	—	14,550
Transfers out.....	<u>(4,365)</u>	<u>(15,075)</u>	<u>—</u>
Increase in net assets.....	<u>(1,521)</u>	<u>(14,802)</u>	<u>17,363</u>
Beginning net assets.....	114,166	14,802	50,321
Ending net assets.....	<u><u>\$ 112,645</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 67,684</u></u>

CONDENSED STATEMENT OF CASH FLOWS

	Single Family	Home Ownership	Mortgage Revenue
Net cash provided (used) by:			
Operating activities.....	\$ (5,208)	\$ 9,942	\$ (15,583)
Noncapital financing activities.....	(9,955)	(13,987)	117,354
Investing activities.....	1,100	932	4,543
Net increase (decrease).....	<u>(14,063)</u>	<u>(3,113)</u>	<u>106,314</u>
Beginning cash and cash equivalents.....	85,265	3,113	121,915
Ending cash and cash equivalents.....	<u><u>\$ 71,202</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 228,229</u></u>

During June 2005, the Housing Authority defeased the outstanding balance of Home Ownership Mortgage Finance Purchase Bonds and transferred all remaining assets and liabilities to the Mortgage Revenue Program.

Because the above separately identifiable activities provide essentially similar services to the Authority's customers, they are not considered to be different activities for financial reporting purposes. Accordingly, all of the Housing Authority's activities are reported as a single fund and as a single business-type activity in the accompanying financial statements.

NOTE 19: JOINT VENTURE AND JOINT OPERATION

a. Joint Venture

In May 1997, the Public Service Authority (the Authority), a major discretely presented component unit, along with two unrelated publicly owned electric utilities formed a wholesale power marketing joint venture called The Energy Authority (TEA). Subsequently, three additional unrelated entities joined TEA. The Authority engages in gas hedging activities through TEA to reduce the cost of fuel inventories. The Authority now has a 21.0% ownership interest, which it records as an equity investment. TEA provides services to its member organizations, as well as to certain non-member organizations, and allocates transaction savings and operating expenses to its member organizations pursuant to a settlement agreement.

During its fiscal year ended December 31, 2004, the Authority received distributions of \$14.463 million from TEA and recognized \$16.860 million in reductions to power costs and increases in electric revenues. The Authority had a collateral refund of \$3.362 million from TEA.

The Authority has provided certain guarantees and has pledged certain collateral to support TEA's transactions. The Authority's Board of Directors has approved the use of up to \$72.400 million to support TEA's activities.

At December 31, 2004, the Authority had a payable to TEA of \$17.500 million for power and gas purchases. In addition, the Authority had a receivable due from TEA of approximately \$2.000 million for power sales and sales of excess gas capacity.

Interested parties may obtain a copy of TEA's financial statements by writing to:

The Energy Authority
76 South Laura Street, Suite 1500
Jacksonville, Florida 32202

b. Joint Operation

The Summer Nuclear Station is a joint operation owned by the Public Service Authority (the Authority), a major discretely presented component unit and regulated electric utility, and the South Carolina Electric and Gas Company (SCE&G), a non-governmental electric utility. The Authority owns an undivided one-third interest in the Station while SCE&G owns an undivided two-thirds interest. SCE&G is solely responsible for the Station's design, construction, management, budgeting, operation, maintenance, and decommissioning; and the Authority is obligated to pay its ownership share of all costs relating thereto. The Authority receives one-third of the net electricity generated.

In accordance with regulatory accounting practices, the Authority reported capital assets of \$487.000 million, accumulated depreciation of \$245.700 million, and expenses of \$54.900 million, which represent its interest in this joint operation. The Summer Nuclear Station is not a separate legal entity and does not prepare separate financial statements.

The Nuclear Regulatory Commission (NRC) requires a licensee of a nuclear reactor to provide minimum financial assurance of its ability to decommission its nuclear facilities. A site-specific decommissioning study completed in 2000 estimated the Authority's share of decommissioning costs for the Summer Nuclear Station as \$143.400 million in 1999 dollars. The Authority accrues its share of the estimated decommissioning costs over the remaining life of the facility. These costs are being recovered through the Authority's rates.

To comply with the NRC regulations, the Authority established an external trust fund and has been making deposits into this fund since September 1990. In addition, the Authority established an internal decommissioning account. The Authority makes deposits into this fund in the amount necessary to fund the difference between the 2000 site-specific study and the NRC's imposed minimum requirement. Based on current decommissioning cost estimates developed by SCE&G, these funds, which totaled \$116.400 million (adjusted to market) at December 31, 2004, along with future deposits into both the external and internal decommissioning accounts and investment earnings, are expected to provide sufficient funds for the Authority's share of the estimated decommissioning costs.

NOTE 20: RELATED PARTY TRANSACTIONS

These financial statements exclude certain related foundations and other organizations, including those discussed below. (See also Note 1a, Scope of Reporting Entity.)

During the fiscal year ended June 30, 2005, the Educational Television Endowment of South Carolina, Inc., disbursed \$4.861 million on behalf of the Departmental General Operating Fund, a major governmental fund, for programs, development, advertising, and other costs.

The following organizations are related to the Higher Education Fund, a major enterprise fund: the University of South Carolina Development Foundation; the University of South Carolina Business Partnership Foundation; the University of South Carolina Research Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the Lancaster County Educational Foundation, Inc.; the Clemson University Research Foundation; the Clemson University Continuing Education and Conference Complex Corporation; the Clemson Advancement Foundation for Design and Building; the Health Sciences Foundation of the Medical University of South Carolina; the Medical University of South Carolina Foundation for Research Development; the Coastal Educational Foundation, Inc.; the Coastal Carolina University Student Housing Foundation; the Horry County Higher Education Commission; the College of Charleston Foundation; the Winthrop University Foundation; the Winthrop University Real Estate Foundation; the Francis Marion University Foundation; the Francis Marion University Student Housing LLC; The Citadel Foundation; The Citadel Alumni Association; The Citadel's Brigadier Foundation; South Carolina State Educational Foundation; the Lander Foundation; Aiken Technical College Foundation, Inc.; Florence-Darlington Technical College Foundation; Horry-Georgetown Technical College Foundation; Greenville Tech Foundation, Inc.; Greenville Tech Foundation Student Housing, LLC; Midlands Technical College Foundation; Orangeburg-Calhoun Technical College Foundation; Piedmont Technical College Foundation; Tri-County Technical College Foundation; Trident Technical College Foundation; and York Technical College Foundation. During the fiscal year ended June 30, 2005, the State entered into various transactions with these organizations.

Approximate amounts within the State's Higher Education Fund that represent transactions with these related parties include: receivable from foundations—\$30.114 million; donations of cash and other assets from foundations—\$102.630 million; expenditures paid to foundations—\$3.507 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations—\$7.377 million.

The Education Assistance Authority Fund, a major enterprise fund, has designated the South Carolina Student Loan Corporation (SLC) as the entity to administer the enterprise fund's student loan program. During the fiscal year ended June 30, 2005, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC—\$9.678 million; notes receivable from SLC—\$772.405 million; program revenue from SLC—\$35.512 million; reimbursements to SLC for administrative costs—\$4.199 million; and payable to SLC—\$93.171 million.

NOTE 21: MAJOR DISCRETELY PRESENTED COMPONENT UNITS

a. Significant Transactions of Major Component Units with the Primary Government

The Public Service Authority makes payments to the General Fund in lieu of taxes each year based on requirements under bond indentures. These payments totaled \$11.175 million during the Authority's fiscal year ended December 31, 2004. The Authority also made two non-recurring payments to the General Fund totaling \$13.000 million during the fiscal year ended December 31, 2004, to provide financial support to the State.

During the fiscal year ended June 30, 2002, the State Ports Authority resolved to contribute a total of \$45.000 million over twenty-six years to the Local Government Infrastructure Fund, a major governmental fund, for the Cooper River Bridge project in Charleston. The Authority made a payment of \$1.000 million during the fiscal year ended June 30, 2005.

The South Carolina Lottery for Education Act requires the Lottery Commission to transfer all proceeds from lottery ticket sales and other revenues net of expenses to the Education Lottery Fund, a nonmajor governmental fund. The Commission transferred \$276.577 million during the fiscal year ended June 30, 2005; the Commission owed an additional \$21.244 million to the Fund at June 30, 2005.

b. Concentrations of Credit Risk

The Public Service Authority and State Ports Authority have chosen to present their statements in accordance with applicable pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. Accordingly, these component units present disclosures regarding concentrations of credit risk.

Public Service Authority

Concentrations of credit risk with respect to the Public Service Authority's receivables are limited due to its large number of customers and their dispersion across different industries. The Authority maintains an allowance for uncollectible accounts based on the expected collectibility of all accounts receivable. The Authority's sales to its two major customers for its fiscal year ended December 31, 2004, were as follows (expressed in thousands):

Customer	Revenue	% of Total Sales Revenue
Central Electric Power Cooperative, Inc.....	\$ 583,000	51.1%
Alumax of South Carolina, Inc.....	118,000	10.4%

No other customer accounted for more than 10.0% of the Authority's sales.

State Ports Authority

During the fiscal year ended June 30, 2005, one customer accounted for approximately 16% of the State Ports Authority's revenues. The Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Authority maintains reserves for potential credit losses.

NOTE 22: CONTINGENCIES AND COMMITMENTS

a. Litigation

Primary Government

Among the unresolved legal actions in which the State was involved at June 30, 2005, are several that challenge the legality of certain taxes. The challenged revenues include the sales tax on diabetic supplies and the use of certain income tax credits. In the event of unfavorable outcomes for these cases, the State does not expect the ultimate liability to exceed \$37 million. Although State losses in these cases also could reduce future revenues, the preceding estimates do not include any impact on future revenues.

The South Carolina Retirement Systems are involved in two alleged class action lawsuits involving new legislation requiring that all retirees working for a covered employer continue to pay employee contributions to the Systems. In the first suit, the plaintiffs allege that requiring such contributions constitutes a breach of contract, an impairment of contractual rights, an unlawful taking of property and is precluded by promissory estoppel. The plaintiffs filed a motion for the case to be heard by the State Supreme Court in its original jurisdiction and the Court accepted jurisdiction. In August 2005, the Court certified a class of retirees affected by the new legislation and ordered the Systems to maintain an escrow account for the employee contributions remitted by members of the class. The parties have submitted briefs and the case is scheduled for oral argument in December 2005. The second suit is a putative class action case alleging the new requirement that working retirees make employee retirement contributions is unconstitutional and illegal. The two cases are based on similar causes of action and facts. If the plaintiffs in the cases prevail, the State could be required to refund the employee contributions currently held in escrow.

A lawsuit relating to the taxation of retirement benefits challenges the State's law imposing income taxes upon benefits paid to retired government employees by the South Carolina Retirement Systems. The State Circuit Court granted the State's motion to dismiss. The State Supreme Court also dismissed the case and required the plaintiff to pursue the claim administratively. In April 2004, the Administrative Law Court denied the petitioner's refund claim. The matter is now on appeal at the Circuit Court. In the event of an unfavorable outcome, the State's liability for retroactive relief could exceed \$650 million. The estimated unfavorable impact on future year revenues could be approximately \$50 million to \$60 million per year.

The State is involved in other legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes cases involving claims asserted against the State arising from alleged torts, breach of contract, and possible violations of State laws. In the event of unfavorable outcomes in all of the above matters, the State's estimated liability would be approximately \$8 million.

While the State is uncertain as to the ultimate outcome of any of the above-described lawsuits, it believes its positions are meritorious and it is vigorously defending its position in each case.

The State is involved in a number of cases in which the amounts of potential losses, if any, are not presently determinable. These cases include one contending that the funding of public education in South Carolina is inequitable and inadequate. The State moved to dismiss the case, and the Circuit Court granted that motion. The plaintiffs appealed, and the State Supreme Court affirmed part of the Circuit Court's order but remanded the case to the Circuit Court for further proceedings as to the issue of alleged inadequate educational opportunity. The Court denied the plaintiffs' request to add a damage claim. The trial has been completed and the Court will issue an Order on the merits probably before the end of 2005. In a second unrelated case, the plaintiffs allege that a State board's actions interfered with their businesses. The State has filed a motion for summary judgment. In the event the State loses this case, the loss amount may not be limited by the State Tort Claims Act and it may exceed the allowable reimbursement from the State's self-insurance fund. In a third unrelated case, the plaintiffs contend that a lack of funding has resulted in the unconstitutional treatment of prison inmates with mental illnesses. This is a new case in the early stages of litigation.

Due to the uncertainty involving the ultimate outcome of the several previously discussed unresolved lawsuits, no provision for potential liability has been made for them in the accompanying financial statements.

Generally, liabilities recorded by the State's Insurance Reserve Fund (see Note 10a), an internal service fund, are sufficient to cover claims arising from alleged torts, up to the liability limits established by the South Carolina Tort Claims Act. Currently, except as described above, no tort claims are pending that are expected to result in any significant liability in excess of the provision for policy claims recorded by the Insurance Reserve Fund.

Major Discretely Presented Component Unit—Public Service Authority

The Public Service Authority, a major discretely presented component unit and electric utility company, is a party to or has an indirect interest in several lawsuits in which the amounts of potential losses, if any, are not presently determinable. The following paragraphs discuss the most significant of these cases.

The Central Electric Power Cooperative, Inc. is the Authority's major customer. A group of customers of Central members filed suit against the Authority and members of Central seeking monetary damages arising out of a change in the Authority's "Good Cents" rate. The plaintiffs seek to represent a class of all "Good Cents" customers of Central's members. The Authority denied the material allegations and opposed the request for class certification. No accurate prediction of the outcome or estimate of range of loss is possible at this time.

Landowners located along the Santee River contend that the Authority is liable for damage to their real estate because of flooding that has occurred since the U. S. Army Corps of Engineers completed its Cooper River Rediversion Project in 1985. A 1997 trial returned a jury verdict against the Authority on certain causes of action. The District Court has not set a separate trial on the case's damages phase. No estimate of potential loss to the Authority can be made at this time. The contract between the Corps and the Authority requires that the Corps indemnify the Authority for certain claims arising out of the construction and operation of the project. The Authority filed a claim seeking that the Corps indemnify the Authority for all costs relating to this matter. Although the contracting officer of the Corps denied the Authority's claim, the U.S. Army Contract Board of Appeals has determined that the Corps must indemnify the Authority for rediversion project related claims.

b. Tobacco Settlement Revenue Management Authority

The Tobacco Settlement Revenue Management Authority (the Authority), a blended component unit and nonmajor governmental fund established in 2001, is a public body and an instrumentality of the State. State law transferred to the Authority all of the State's rights and interests under the Master Settlement Agreement (the MSA) and the Consent Decree and Final Judgment between all participating states and the participating tobacco manufacturers. These rights include the State of South Carolina's share of all tobacco settlement revenues (TSRs) actually received after June 30, 2001, or to be received in the future under the MSA.

The Authority issued asset-backed term bonds in 2001. The payment of such bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors, including cigarette consumption and the continued financial capability of the original participating manufacturers. Such bonds are secured by, and payable solely from, TSRs and investment earnings pledged under the bond indenture and amounts established and held in accordance with the bond indenture. The term bonds are payable only from the Authority's assets. If the Authority has no assets, it will not pay any principal or interest on the bonds. The TSRs represent the Authority's only source of funds for payments on the bonds; the Authority has no taxing power.

Various parties have instituted litigation alleging, among other things, that the MSA violates certain provisions of federal and State laws. Certain of these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. In the event of an adverse court ruling, the Authority may not have adequate financial resources to make payment on the bonds.

c. Federal Grants

The State receives significant federal grant and entitlement revenues. Compliance audits of federal programs may identify disallowed expenditures. Disallowances by federal program officials as a result of these audits may become liabilities of the State. The State records a liability for pending disallowances if settlement is probable and the settlement amount is reasonably estimable. Otherwise, the liability is recorded only when the State and the federal government agree on reimbursement terms. Based on an analysis of historical data, however, the State believes that any such disallowance reimbursements relating to the fiscal year ended June 30, 2005, or earlier years will not have a material impact on the State's financial statements.

d. Other Loan Guarantees

The South Carolina Education Assistance Authority, a major enterprise fund, guarantees student loans. At June 30, 2005, these loans totaled \$2.118 billion. The United States Department of Education reinsures 100.0% of losses under these guarantees for loans made prior to October 1, 1993; 98.0% of losses for loans made on or after October 1, 1993, but before October 1, 1998; and 95.0% for loans made on or after October 1, 1998. If the loan default rate exceeds 5.0% of the loans in repayment status, however, the United States Department of Education decreases the reinsurance rate. The State's default rate during the fiscal year ended June 30, 2005, was less than 1.0%.

The nonmajor enterprise funds guarantee a portion of a mortgage debt up to a maximum of \$1.531 million.

e. Purchase Commitments

Major Discretely Presented Component Unit—Public Service Authority

At December 31, 2004, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling \$672.581 million for coal. In addition, minimum obligations under purchased power contracts were approximately \$88.400 million at December 31, 2004,

with a remaining term of thirty years. Also, the Authority has commitments for nuclear fuel enrichment and fabrication contracts that are contingent upon the operating life of its nuclear unit. As of December 31, 2004, these commitments totaled approximately \$41.700 million over the next seven years.

The Authority has entered into a service agreement in the approximate amount of \$90.000 million. The agreement provides a service director, initial spare parts, parts and services for specified maintenance outages, remote monitoring and diagnostics of the turbine generators, and combustion tuning for the gas turbines. In exchange for reduced pricing and added features, the contract term was extended to 2025, but can be terminated in 2008.

Major Discretely Presented Component Unit—Lottery Commission

At June 30, 2005, the Lottery Commission had a remaining commitment of \$2.217 million under a service contract with a term that extends through September 2007. The contract provides, among other things, services and equipment to operate the on-line lottery.

f. Commitments to Provide Grants and Other Financial Assistance

The South Carolina Transportation Infrastructure Bank, reported within the Local Government Infrastructure Fund (a major governmental fund), has agreements with various counties to provide financial assistance totaling \$1.679 billion for certain highway and transportation facilities projects. At June 30, 2005, the remaining commitments for these agreements totaled \$398.108 million.

At June 30, 2005, the Department of Commerce had outstanding commitments of \$105.021 million to provide funds to local governmental entities from various State governmental funds. These commitments included grants for water and wastewater infrastructure projects, airport construction projects, and rural infrastructure projects.

At June 30, 2005, the Budget and Control Board had outstanding commitments of \$99.391 million to provide loans and grants for water and wastewater projects and energy efficiency improvement projects.

The Housing Trust Fund, reported within the nonmajor governmental funds, had financial award commitments outstanding of \$7.753 million at June 30, 2005, for affordable housing projects and developments.

g. Major Discretely Presented Component Unit—Regulatory Matters

The Public Service Authority (the Authority), a major discretely presented component unit and electric utility company, endeavors to ensure that its facilities comply with applicable environmental regulations and standards. Congress has promulgated comprehensive amendments to the Clean Air Act, including provisions that relate to acid precipitation as well as to sulfur dioxide and nitrogen oxide emissions.

The Environmental Protection Agency has finalized regulations relating to ozone transport for twenty-two eastern states including South Carolina. These regulations require significant nitrogen oxide emission reductions from the power industry. As a result, the Authority believes the cost of compliance will approach approximately \$263.000 million for the Authority's fiscal year ending December 31, 2005. Annual operating costs associated with such compliance could approach \$10.000 million.

h. Major Discretely Presented Component Unit—Deregulation of Electric Utilities

The Public Service Authority, a major discretely presented component unit, currently is a regulated electric utility. The electric industry is increasingly competitive due to regulatory changes and market developments. As utilities move to a deregulated environment where rates are based on market forces, there may be costs that cannot be recovered by charging the market rate. Some proposed deregulation measures allow for recovery of some portion of these costs, but the ultimate regulatory treatment of such costs cannot be predicted.

The Authority has developed and is implementing a long-term strategic plan designed to position it to compete effectively in the changing competitive environment. Although the Authority is preparing for a deregulated market, it cannot predict the effects of increased competition on its operations and financial condition.

i. Major Discretely Presented Component Unit—Connector 2000 Association, Inc.

During its fiscal year ended December 31, 2001, the Connector 2000 Association, Inc., a major discretely presented component unit, opened the Southern Connector toll road to public traffic and began toll collections. Since commencing operations, the Southern Connector has experienced significantly lower traffic counts than those projected during the planning phase of the project. Because the Association pledged these toll collections for debt service payments on its toll road revenue bonds, the Association's debt service capability also is affected. The Association used a portion of its debt service reserve fund to help fund interest payments during its fiscal year ended December 31, 2004. Unless revenues increase sharply in the future, the Association will continue to draw monies from its debt service reserve funds to meet scheduled debt service payments.